We deliver knowledge, ideas and exceptional results.

Dear Clients and Friends:

Tax planning is rarely easy, but this year it is especially difficult due to the potential for sweeping tax reforms. At this writing, Congress has yet to agree on a comprehensive plan that can be expected to pass both houses and be signed by the president. We will continue to monitor the latest developments in Washington and update you, when appropriate. In the meantime, taxpayers are advised to rely on sensible strategies that are likely to remain in effect, at least for 2017.

Furthermore, tax legislation enacted during the last few years, including the Protecting Americans from Tax Hikes (PATH) Act of 2015, could still have a major impact on year-end tax planning. The PATH Act reinstated dozens of tax breaks that had expired, many of them retroactively, while modifying numerous other tax law provisions. Finally, other events that have occurred in recent years—including a stream of new cases, rulings and IRS regulations—may affect your year-end tax-planning decisions.

Keeping all that in mind, we have prepared the following **2017 Year-End Tax-Planning Letter**. For your convenience, the letter has been divided into three sections:

*Individual Tax Planning

*Business Tax Planning

*Financial Tax Planning

Be aware that the concepts discussed in this letter are intended to provide only a general overview of year-end tax planning. It is recommended that you review your personal situation with a tax professional.

INDIVIDUAL TAX PLANNING

Itemized Deductions/Personal Exemptions

Certain tax-reform proposals would repeal most itemized deductions, except those for mortgage interest and charitable donations. Currently, itemized deductions and personal exemptions are reduced for high-income taxpayers through two comparable rules.

1. **Pease rule**: Under this rule, named for the congressman who initially introduced this provision into legislation, most itemized deductions—including charitable donations, state and local taxes, and mortgage interest—are reduced by 3% of the excess above an annual adjusted gross income (AGI) threshold based on your filing status (not to exceed 80% of total deductions).

2. **PEP rule**: The personal exemption phaseout (PEP) rule generally reduces personal exemptions by 2% for every $2,500 of AGI (or a fraction thereof) above the Pease rule thresholds.

TAX ACTION: Watch out for the Pease and PEP rule thresholds. In some cases, you may be able to lower your AGI or shift deductions at year-end so your income falls below the threshold. The thresholds for 2017 are:

Filing status	Threshold for 2017
Single	$261,500
Married filing jointly	$313,800
Married filing separately	$156,900
Head of household	$287,650

Tip: Some itemized deductions—typically, those with built-in floors—are not affected by the Pease rule; however, all personal exemptions are subject to the PEP rule.

Alternative Minimum Tax

The alternative minimum tax (AMT) remains a prime tax-reform target. Briefly stated, the complex calculation for determining AMT liability under current law includes certain technical adjustments, inclusion of “tax preference items” and subtraction of an exemption amount. After comparing AMT liability with your regular tax liability, you effectively pay the higher of the two.

TAX ACTION: Assess your personal situation. Depending on the results, you may shift certain tax preference items or deductions to 2018 to reduce AMT liability for 2017. For instance, you might postpone exercise of incentive stock options (ISOs) that count as tax preference items.

The exemption amount for 2017 is $54,300 for single filers and $84,500 for joint filers. **Caveat**: These amounts are reduced for high-income taxpayers. For 2017, the reduction equals 25 cents for each dollar of AMT income above $120,700 for single filers and $160,900 for joint filers.

Tip: There are just two AMT rates. For 2017, the rates are 26% on AMT income up to $187,800 and 28% on AMT income above this threshold. Note that the top AMT rate is lower than the top regular income tax rate of 39.6%.

Charitable Donations

Generally, you can deduct the full amount you donate to qualified charitable organizations if you meet the substantiation requirements in the tax law. However, other limits may apply to charitable deductions, including a potential reduction under the "Pease rule" (see page 1).

TAX ACTION: Absent extenuating circumstances, make charitable gifts before 2018 to increase your 2017 deduction. However, be careful to observe the strict record-keeping requirements. For instance, obtain a written acknowledgment from the charity for monetary gifts of $250 or more.

Furthermore, if you donate property held for longer than one year, you can generally deduct an amount equal to the property's fair market value (FMV). Otherwise, the deduction is limited to your "basis" (i.e., the cost). Also, other special rules may apply to gifts of property. For instance, the annual deduction for gifts of property typically cannot exceed 30% of AGI.

If you plan to donate securities to a charity, you might give those that have appreciated in value. As a result, you can deduct the FMV of the securities while the appreciation remains untaxed—forever. More sophisticated arrangements include transfers to charitable remainder trusts (CRTs).

Tip: If you make an online donation in December via credit card, you can write off the donation on your 2017 return—even if you do not actually pay the credit card charge until 2018.

Family Income Splitting

The time-tested technique of family income splitting may be especially beneficial to high-income taxpayers in 2017. Currently, the top ordinary income tax rate is 39.6%, while the rate for taxpayers in the lowest income tax bracket is only 10%. Thus, the tax rate differential between you and a low-taxed family member, such as a child or grandchild, could be as much as 29.6%—and that's before taking into consideration a special 3.8% tax for certain investors (see page 7).

TAX ACTION: Shift income-producing property, such as securities, to family members in lower tax brackets through direct gifts or trusts. This will decrease the overall family tax bill. But remember that you are giving up control over those assets—you will no longer have legal claim to the property.

In addition, be aware of potential complications caused by the "kiddie tax." Generally, unearned income above $2,100 received in 2017 by a child younger than age 19 or a child who is a full-time student younger than age 24 is taxed at the top marginal tax rate of the child's parents, regardless of the source of the income. The kiddie tax could affect family income-splitting strategies at year-end.

Tip: Although the kiddie tax could be triggered in 2017, some of the same income-deferral strategies available to adults may be used for dependent children. For example, you may arrange for a child to postpone a large capital gain from a securities sale to 2018 or realize a capital loss at year-end to offset previous capital gains (see page 7).

Medical Expense Deductions

For 2017, all taxpayers may deduct only those unreimbursed medical and dental expenses in excess of 10% of AGI. Prior to 2017, the threshold for taxpayers age 65 or older was 7.5%.

Usually, you have no control over when medical or dental expenses occur. At other times, however, you may be able to schedule elective expenses, such as physical examinations or dental cleanings, to your benefit.

TAX ACTION: Move nonemergency expenses into the optimal tax year for claiming deductions. For instance, if you are near or have already surpassed the AGI threshold this year, you may want to accelerate elective expenses into 2017. Otherwise, you might as well delay expenses until 2018, when you will at least have a chance at a deduction.

To qualify, the expense must be for the diagnosis, cure, mitigation, treatment or prevention of disease, or payments for treatments affecting any structure or function of the body. Costs for your general health or well-being are nondeductible.

Tip: Count unreimbursed medical and dental expenses paid for your immediate family as well as for other tax dependents, such as an elderly parent. This might push you above the threshold.

Miscellaneous

*You may deduct annual state sales taxes (based on an IRS table or actual receipts) in lieu of deducting state and local income taxes. This alternative deduction, which had expired and been reinstated several times, was recently made permanent by the PATH Act.

*When it suits your needs, prepay state and local taxes. For instance, if property taxes are due on January 1, 2018, a payment in December may increase your 2017 deduction.

*Miscellaneous expenses, including unreimbursed employee business expenses, are deductible only in excess of 2% of AGI. As with medical and dental expenses, you might arrange to pay qualified expenses (e.g., tax assistance fees) before 2018 to boost your deduction for 2017.

*Generally, you may claim a dependency exemption for a child under age 19 or a full-time student under age 24, if you provide more than half the child's annual support. It may pay to be extra generous with support around the holidays to clear the half-support mark.

*If you pay a child's college tuition bill before 2018, you may qualify for one of two higher-education tax credits for 2017, subject to phaseouts.

*You may be liable for an estimated tax penalty if you fail to pay required tax during the year. But you can avoid the penalty by paying enough to satisfy a "safe harbor" of 90% of current tax liability or 100% of the previous year's tax liability (110% if your AGI was above $150,000).

*If you own property damaged in a federal disaster area, like those hit by recent hurricanes and wildfires, you may qualify for faster casualty loss relief by filing an amended 2016 return.

BUSINESS TAX PLANNING

Section 179 Deductions

Under Section 179 of the tax code, a business may "expense" (i.e., currently deduct) the cost of qualified property (which may be new or used) placed in service during the year. The maximum annual deduction is phased out on a dollar-for-dollar basis above a specified threshold.

After a series of increases, the maximum Section 179 deduction was scheduled by Congress to be slashed from $500,000 to $25,000 after 2014. But the PATH Act permanently preserved the more generous allowance, retroactive to 2015, and included inflation indexing. The table below lists the maximum Section 179 allowances in recent years.

Tax year	Deduction limit	Phaseout threshold
2007	$125,000	$500,000
2008–2009	$250,000	$800,000
2010–2015	$500,000	$2 million
2016	$500,000	$2.01 million
2017	$510,000	$2.03 million

TAX ACTION: Ensure that qualified property is actually placed in service before the end of the year. In other words, start using it. This will help maximize your annual deduction.

However, note that the Section 179 deduction cannot exceed the taxable income from all your business activities this year. This could limit your deduction for 2017.

Tip: Depreciation deductions may still be available for costs that cannot be expensed under Section 179. For these purposes, you claim the Section 179 deduction first.

Bonus Depreciation

Based on the Modified Accelerated Cost Recovery System (MACRS), a business may generally claim depreciation deductions for qualified property over a cost recovery period. In addition, the PATH Act preserved the 50% "bonus" depreciation for qualified property placed in service in 2016 and 2017. However, the bonus depreciation deduction is now scheduled to decrease to 40% in 2018 and to 30% in 2019, before expiring.

TAX ACTION: Maximize the benefits of 50% bonus depreciation while the deduction is still available. Factor in all the tax ramifications for your business before purchasing property at the end of the year.

Bonus depreciation may be claimed in conjunction with Section 179 (see above). However, unlike deductions claimed under Section 179, bonus depreciation is not available for used property.

Tip: MACRS deductions are generally reduced if business property (other than real estate) placed in service during the last quarter of the year—the period spanning October 1 through December 31—exceeds 40% of the cost of assets placed in service during the entire year.

Travel and Entertainment Expenses

The travel and entertainment tax rules are fraught with twists and turns. Be aware of the following points as you look to increase deductions at the end of the year.

*Under the "luxury car" rules, the deduction limit (including bonus depreciation) for a passenger vehicle placed in service in 2017 is $11,160 ($11,560 for light trucks and vans). These figures are based on 100% business use and must be adjusted accordingly. For example, if you use a new car 80% for business, your first-year deduction is limited to $8,928 (80% of $11,160).

*A company may generally deduct 100% of the qualified business travel costs incurred by employees. To increase your current deduction, accelerate trips planned for 2018 into 2017.

*You may deduct only entertainment expenses "directly related to" or "associated with" your business. For instance, if entertainment follows or precedes a substantial business meeting, it may qualify as being associated with entertainment. You might want to plan year-end entertainment with clients around such meetings.

*Normally, business entertainment deductions are limited to 50% of the cost. However, a company can deduct 100% of the cost of a holiday party as long as the entire workforce is invited.

*If you give clients business gifts during the holiday season, the deduction is limited to $25 per recipient. However, if you give gifts of tickets to sporting events, concerts or plays, you may deduct the cost as entertainment (subject to the 50% limit).

Tip: If you use the standard mileage method for automobile expenses in lieu of deducting your actual expenses, the rate for 2017 is 53.5 cents per business mile (plus business-related tolls and parking fees).

Employee Bonuses

Normally, employee bonuses are deducted in the year they are paid and are taxable in the year they are received. For instance, you must dole out bonuses before January 1, 2018, to deduct those bonuses on your company's 2017 return. However, there's a special rule for accrual-basis companies: The bonuses are currently deductible if they are paid within 2½ months of the close of the tax year.

TAX ACTION: Accrual-basis companies should fix bonus amounts before year-end. Thus, the bonuses can be deducted on such companies' 2017 returns as long as they are paid by March 15, 2018. Keep detailed corporate minutes to support the deductions.

This special deduction rule does not apply to bonuses paid to majority shareholders of a C corporation or certain owners of an S corporation or a personal service corporation.

Tip: Other special rules may apply to bonuses paid through "deferred compensation plans." Consult a tax professional for details.

Business Start-up Expenses

The tax law allows a small-business owner to claim a first-year deduction of up to $5,000 for qualified start-up costs. Any remaining expenses that qualify must be amortized over a period of 180 months. However, the $5,000 write-off is phased out on a dollar-for-dollar basis for start-up costs exceeding $50,000.

TAX ACTION: Make sure that you are officially “open for business” before the end of the year. Otherwise, you will not be entitled to claim the current $5,000 deduction on your 2017 return. The actual event that triggers an opening will vary according to the type of business you operate and your particular circumstances.

Generally, start-up costs are expenses that would be deductible as business expenses. This includes investigatory expenses such as the following:

- An analysis or survey of potential markets, products, labor supply, transportation facilities, etc.
- Advertisements for the opening of the business.
- Salaries and wages for employees who are being trained and those instructing them.
- Travel and other necessary costs to secure prospective distributors, suppliers, customers or clients.
- Salaries and fees for executives and consultants or for similar professional services.

Tip: On the other hand, if it suits your purposes, you can elect to have all your business start-up costs amortized over the 180-month period. This may be preferable for an entrepreneur who expects to have a low tax liability in 2017.

Miscellaneous

*Purchase routine business supplies before the end of the year. As a general rule, your company can deduct the costs in 2017, even if the supplies are not used until 2018.

*Losses claimed by S corporation shareholders are limited to the basis in the stock plus outstanding debt. Thus, you might decide to make a capital contribution or loan money to the corporation before year-end to increase your basis for loss-deduction purposes.

*If you buy a heavy-duty SUV or van for business, you might claim a first-year Section 179 allowance of up to $25,000. The usual “luxury car” limits (see page 5) do not apply to certain heavy-duty vehicles.

*As a general rule, repairs are currently deductible, while capital improvements must be depreciated over time. Based on guidelines established by recent regulations, plan accordingly. For instance, schedule minor repairs before next year to increase your deduction for 2017.

*If your employer pays for you to take a course at a local college, the cost of business education is generally deductible by your employer, and the reimbursements are tax-free to you. Set up an “educational assistance plan” that meets the tax law requirements for fringe benefits.

FINANCIAL TAX PLANNING

Capital Gains and Losses

Frequently, investors can time dispositions of securities at year-end for optimal tax results. For starters, capital gains and losses offset each other. If you show an excess loss for the year, it may offset up to $3,000 of ordinary income before being carried over to the next year. A net long-term capital gain is taxed at a maximum rate of 15%, or 20% if you are in the top ordinary income tax bracket of 39.6%. Short-term capital gains are taxed at ordinary income rates.

TAX ACTION: Review your investment portfolio. Depending on your situation, you may harvest capital losses to offset gains realized earlier in the year or cherry-pick capital gains that will be partially or wholly absorbed by prior losses.

Be aware of even more favorable tax treatment for certain long-term capital gains. Notably, a 0% rate applies to taxpayers in the lowest two regular income tax brackets of 10% and 15%, such as your young child. Furthermore, even if capital gains push you into a higher tax bracket, you still benefit from the 0% rate on the portion of the gains up to the top of the income threshold for the 15% tax bracket.

Tip: Under the "wash sale rule," you cannot deduct a loss on securities sales if you acquire substantially identical securities within 30 days. The easiest way to avoid this is to wait at least 31 days before repurchasing the same or similar securities. Alternatively, you may "double up" by acquiring the securities and waiting at least 31 days to sell the initial block.

Net Investment Income Tax

Besides the regular tax rates, a 3.8% tax applies to the lesser of your net investment income (NII) or the amount by which your modified adjusted gross income (MAGI) for the year exceeds $200,000 for single filers and $250,000 for joint filers. (These amounts are not indexed for inflation.) The definition of NII includes interest, dividends, capital gains and income from passive activities, but not Social Security benefits, tax-exempt interest, and distributions from qualified retirement plans and IRAs.

TAX ACTION: Where possible, reduce your NII tax liability in 2017, or avoid it altogether. This requires you to assess the amount of both your NII and your MAGI at the end of the year. Then you can act accordingly.

For example, you might add municipal bonds ("munis") to your portfolio. Interest income from munis does not count as NII, nor is it included in the calculation of MAGI. Similarly, if you turn a passive activity into an active business, the resulting income may be exempt from the NII tax. **Caution**: These rules are complex, so obtain professional assistance.

Tip: The 3.8% NII tax was initially authorized by the Affordable Care Act (ACA). Thus, if the ACA is eventually repealed, this tax may fall by the wayside.

Required Minimum Distributions

As a general rule, you must receive required minimum distributions (RMDs) from qualified retirement plans and IRAs after reaching age 70½. The amount of the distribution is based on IRS-approved life expectancy tables and your account balance at the end of last year.

TAX ACTION: Arrange to receive RMDs well in advance of the December 31 deadline. Otherwise, you will have to pay a stiff tax penalty equal to 50% of the required amount (less any amount you have received), in addition to the regular tax liability.

However, if you are still working and do not own 5% or more of a business employing you, you can postpone RMDs from the employer's qualified plan until you retire. This "still working exception" does not apply to RMDs from IRAs or plans of employers where you do not work.

Tip: RMDs are not treated as NII for purposes of the 3.8% tax. Nevertheless, an RMD may still increase your MAGI used in the NII tax calculation.

Estate and Gift Taxes

During the past 15 years, Congress has gradually increased the estate-tax exemption, while reducing the top estate-tax rate. At one point, the estate tax was repealed, but only for 2010, while the unified estate- and gift-tax exclusion were severed and then reunified. The table below shows the progression of the estate-tax exemption and top estate-tax rate.

Tax year	Maximum estate-tax exemption	Top estate-tax rate
2002	$1 million	50%
2003	$1 million	49%
2004	$1.5 million	48%
2005	$1.5 million	47%
2006	$2 million	46%
2007–2008	$2 million	45%
2009	$3.5 million	45%
2010	Not applicable	Repealed
2011	$5 million	35%
2012	$5.12 million	35%
2013	$5.25 million	40%
2014	$5.34 million	40%
2015	$5.43 million	40%
2016	$5.45 million	40%
2017	$5.49 million	40%

TAX ACTION: Update your estate plan to reflect existing law. For instance, wills and trusts may be revised to accommodate the rule allowing portability of the estate-tax exemption.

Note that under the "portability" provision for a married couple, the unused portion of the estate-tax exemption of the first spouse to die may be carried over to the estate of the surviving spouse. This tax break is now a permanent part of the tax code.

Tip: The annual gift-tax exclusion allows you to give up to $14,000 to a recipient in 2017 ($28,000 for joint gifts from a married couple) without paying any gift tax. (The exclusion is scheduled to increase to $15,000 in 2018.) Such gifts reduce the size of your taxable estate.

Roth IRA Conversions

Although contributions to traditional IRAs may be tax-deductible, deductions are phased out for active participants in employer-sponsored retirement plans. Future distributions are taxed at ordinary income rates, reaching up to 39.6%.

Conversely, Roth IRA contributions are never tax-deductible, but qualified distributions from a Roth IRA in existence at least five years are 100% tax-free. Taxation of other distributions is based on special "ordering rules."

TAX ACTION: Figure out whether a Roth conversion makes sense for this year. The transfer is currently taxable but can provide future tax-free benefits. A conversion is especially advantageous if you expect to be in a higher tax bracket in your retirement years than you are now.

Nevertheless, a Roth IRA conversion increases your MAGI for purposes of the NII tax. To reduce your overall tax liability, you might arrange a series of Roth IRA conversions over several years instead of converting all the funds this year. Manage your tax brackets accordingly.

Tip: The conversion tax is based on the value of the assets on the date they are transferred to the Roth IRA. If the value declines substantially after conversion, you still have until the tax return due date for 2017, plus extensions, to convert a Roth back into a traditional IRA.

Miscellaneous

*Sell real estate on an installment basis. For payments over two years or more, you can defer tax until full payment is received. Also, this method may effectively reduce your overall tax liability.

*Contribute up to $18,000 to a 401(k) in 2017 ($24,000 if you are age 50 or older). If you clear the 2017 Social Security wage base of $127,200 and promptly allocate the payroll tax savings to a 401(k), you can increase your deferral with no further reduction in your take-home pay.

*Invest in passive income generators (PIGs). Generally, you can use only losses from passive activities (e.g., most real estate investments) to offset income from passive activities, with limited exceptions. With a PIG, you can absorb more of your passive activity losses.

*It is often beneficial, from a tax perspective, to sell mutual fund shares before the fund declares dividends (the ex-dividend date) and buy shares after the date the fund declares dividends.

*The PATH Act permanently preserved the tax exclusion for distributions from an IRA to a qualified charity by taxpayers age 70½ or older. The limit is $100,000 per taxpayer.

*Consider investing in dividend-paying stocks. The maximum tax rates for qualified dividends received in 2017 mirror the maximum tax rates for long-term capital gains (see page 7).

CONCLUSION

This year-end tax-planning letter is based on the prevailing federal tax laws, rules and regulations. Of course, it is subject to change, especially if major tax-reform provisions are enacted by Congress before the end of the year.

Finally, remember that this letter is intended to serve only as a general guideline. Your personal circumstances will likely require a careful examination. We would be glad to schedule a meeting with you to assist with all your tax-planning needs.

Very truly yours,

This year-end tax-planning letter is published for our clients, friends and professional associates. It is designed to provide accurate and authoritative information with respect to the subject matter covered. The information contained in this letter is not intended or written to be used for the purpose of avoiding any penalties that may be imposed under federal tax law and cannot be used by you or any other taxpayer for the purpose of avoiding such penalties. Before any action is taken based on this information, it is essential that competent, individual, professional advice be obtained.