Norwalk Business Service, Inc.

Earl M. Salter, & EA. Richard J. Cavish, EA. & Brenan J. Cavish, EA
email: earlmsalter@nbs-tax.com email: rcavish@nbs-tax.com email:bcavish@nbs-tax.com

*****Year-End Tax Planning Tips*****

As the end of the year approaches, it is a good time to think of planning moves that will help lower your tax bill for this year and possibly the next. With the passing of the PATH act on December 18, 2015, Congress was able to provide some stability for tax planning for 2016 and 2017. Many tax breaks or incentives were either made permanent or extended for at least 2 years.

Current consensus is that a President Trump administration is likely to result in changes to the tax code and an effort to repeal or replace the Affordable Care Act (Obamacare). Among other things, President Elect Trump has proposed changing the amount of tax brackets to three with rates at 12%, 25%, and 33%. Included with these proposals are limits on itemized deductions and the elimination of the personal exemption. These changes will likely not go into effect until the start of 2018.

Steps You Can Take Now To Reduce Your 2016 Tax Liability:

Harvest Losses – Sell some of your poor performers. You may have experienced paper losses on stock in a particular company or industry in which you want to keep an investment. If so, you may be able to realize your losses on the shares for tax purposes and still retain the same, or approximately the same, investment position. This can be accomplished by selling the shares and buying other shares in the same company or another company in the same industry to replace them. There are several ways this can be done. For example, you can sell the original holding, then buy back the same securities 31 days later to avoid the wash sale rules. These losses can be used to offset capital gains plus up to $3,000 dollars of ordinary income. Any excess losses are then carried over to the next year to offset future capital gains.

Accelerate Charitable Contributions. You should keep in mind that charitable contributions are deductible when charged to your credit card accounts. (e.g., in 2016) rather than when you pay the credit card company (e.g., in 2017).

Charitable Ira Contributions. If you are over 70 ½ you can take advantage of the now permanent rule that allows you to transfer up to $100,000.00 a year directly from your IRA account to a charity. These transfers count as part of your required distribution. Unlike other gifts, these direct gifts are not added to taxable income, which can benefit you by reducing taxable income for Social Security tax calculation and the Medicare premium surcharge.

Make year-end gifts. A person can give any other person up to $14,000 for 2015 without incurring any gift tax. The annual exclusion amount increases to $28,000 per donee if the donor's spouse consents to gift-splitting. Annual exclusion gifts take the amount of the gift and future appreciation in the value of the gift out of the donor's estate.***A gift to a noncharitable donee is not an income tax deduction.***

Contribute to your IRA or 401k. If you qualify, contributing to an IRA or 401k can reduce your taxable income. The yearly contribution limit for an IRA is $5,500 per taxpayer (or $6,500 if you are over 50.) If you are enrolled in a 401(k) plan, each taxpayer can contribute $18,000 (or $24,000 if you are over 50.)

Accelerate Property Tax Deduction. You can accelerate your property tax deduction by paying the second half of your 2016 tax bill, generally due in 2017, by December 31st, 2016.

Be sure to take required minimum distributions (RMDs). If you have reached age 70, be sure to take your 2016 RMD from your IRAs or 401(k) plans (or other employer-sponsored retired plans). Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. If you turned age 70 in 2016, you can delay the first required distribution to 2017. However, if you take the deferral route, you will have to take a double distribution in 2017—the amount required for 2016 plus the amount required for 2017.

Purchase equipment before January 1st. Businesses should buy machinery and equipment before year end and, under the generally applicable "half-year convention," thereby secure a half-year's worth of depreciation deductions in 2016.

- **Claim section 179 depreciation on your equipment purchases.** Expenditures that qualify for this option can still get you thousands of dollars of current deductions that you wouldn't otherwise get. In 2016, the expensing limit was increased to $500,000, and the investment-based reduction in the dollar limitation starts to take effect when property placed in service in the tax year exceeds $2,010,000.

Make a State Estimated Payment. If this year is on track to be a much more profitable year than next year will be, you can shift some of your income to next year by making a state estimated tax payment on or before December 31st. By doing this, you can increase your itemized state tax paid deduction. This will appear as income the next year for any amount that is refunded to you in the next tax year.

Contribute to the California College Access Program. This is a California credit that allows you to contribute to a College Access Tax Credit Fund during 2014-2017. In 2016, the amount of the credit is 50% of the amount contributed. A federal tax charity deduction is also allowed for the amount donated. For more information, go to:
https://cefa.treasurer.ca.gov/Home/application

Purchase Solar Panels & Energy Efficient Household Items. The credit for energy efficient items like windows, insulation, and roofing will phase out at the end of the year. This credit allowed up to 10% of the cost of the energy efficient item with a lifetime maximum credit of $500.00. The Solar Energy Credit was extended at the full rate until 2019. Afterwards, it will begin to phase out ending 2021. This credit gets you up to a 30% federal tax credit. There is no lifetime maximum on this credit.

Earl M. Salter, EA. #9665 Richard J. Cavish, EA. #27191 Brenan J. Cavish, EA.#117508
Website: www.nbs-tax.com