

Tax Notes

2017 Individual Year-End Tax Planning

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This is a great time to execute plans which can minimize your federal and state tax obligations as well as address long-term concerns. Amid the current beehive of activity regarding tax legislation, it doesn't seem likely that the rules for 2017 will significantly change. This article focuses on various strategies which are currently available. However, it also makes sense to discuss how the proposed tax law changes might impact your year-end tax planning decisions.

Using our expertise, we are able to project your federal and state tax liabilities with reasonable accuracy. Multiple scenarios can be used to project tax liability under different circumstances, e.g. starting or ending employment, new business, sale of assets, retirement distributions, etc. This process should be a prerequisite for making decisions which may have a significant tax impact, such as accelerating income or deductions.

In this e-newsletter, we are providing some tax tips which may help you with your year-end planning.

State and Local Income and Property Tax and the Alternative Minimum Tax

For taxpayers who aren't subject to Alternative Minimum Tax (AMT) paying the balance of state income or property tax in December provides an additional deduction on the federal return. For those subject to AMT, there still may be some tax benefit in doing so. For those with significant investment income (interest, dividends and capital gains), there may be a reduction in the Net Investment Income Tax (3.8%) by paying state income tax in the current year.

Planning Note: If the current Senate and House proposals become law, this may be the last year the state income or property tax may be a federal tax deduction.

Underpayment Penalties

A basic planning concept is avoiding penalties for underpaying the proper amount of estimated tax at the appropriate times. To avoid penalties, taxpayers can use the safe harbor method of paying in 2017 an amount equal to the 2016 tax (110% of that amount for federal and New York returns where adjusted gross income exceeds \$150,000) or pay 90% of the actual 2017 tax by final due date of January 15, 2018. Those who operate their businesses as corporations can use year-end bonuses and withholding to accomplish this purpose. Others who are non-owner employees can also utilize this method when year-end bonuses are given.

Retirement Plan Contributions

Maximize deductible retirement plan contributions, e.g., IRAs, SEPs, 401K plans, etc.

Roth Conversion Planning Opportunity

For those who are in a low income tax bracket or who have significant operating losses, there are opportunities to convert traditional IRAs to Roth IRAs — which accumulate value tax free and aren't subject to required distribution rules or taxation upon distribution — at little or no cost. Another alternative is to take distributions from retirement accounts at little or no cost.

Planning Note: Penalties may be assessed if you take retirement plan distributions before age 59½. Contact us in advance to discuss the exceptions to the penalties.

Retirement Plan Required Minimum Distributions

For those who have reached age 70½, be mindful of the rules regarding required minimum distributions. [The penalty for noncompliance is a whopping 50% of the required distribution!] We can assist you with the timing and amount of these distributions and also help you plan the proper amount of income tax withholding from these distributions. Now is also a good time to review the beneficiary designations on your retirement accounts.

Earned Income and Retirement Plans

For children and young adults with earned income (generally wages) who are in low income tax brackets, consider making a contribution to a Roth IRA. Accumulation in value and distributions are exempt from tax. This is a great way to accumulate wealth and reinforce the value of savings.

Capital Gains and Losses

Consider utilizing capital losses to offset capital gains (“harvesting losses”). Otherwise, \$3,000 of capital losses can offset other income, e.g., wages, business income, etc.

Charitable Donations

Donating appreciated stock to charity results in a charitable deduction for the market value of the security.

Planning Note: By doing this, you avoid the unintended consequence of deduction phase-outs; namely, you avoid increased tax liabilities.

Gifting

Making gifts up to \$14,000 each (\$28,000 for a married couple) to family members or other individuals without gift tax implications. Section 529 plans (qualified tuition plan) can be front loaded with up to 5 years' worth of annual exclusion gifts (\$70,000 per person or \$140,000 per couple). Those who contribute to a NYS 529 before year-end and are filing a joint New York State Income Tax return are allowed up to a \$10,000 deduction (\$5,000 for unmarried).

S Corporations and NYC UBT

For those operating an S corporation business in New York City, calculate the proper amount of salary to take in order to minimize NYC corporate tax. If you are not currently incorporated, call us to discuss how a corporate structure may work to your advantage.

Contact Us

This represents a sampling of helpful actions which can reduce 2017 tax liability and address some long-term planning goals. Tax planning isn't limited to a specific income or age group. It's a practice we can all

benefit from. Contact George Beda gbeda@pkfod.com, Doug Ruttenberg druttenberg@pkfod.com or your PKF O'Connor Davies' team to better understand how you may be able to maximize these planning opportunities. Everyone's situation is different.

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