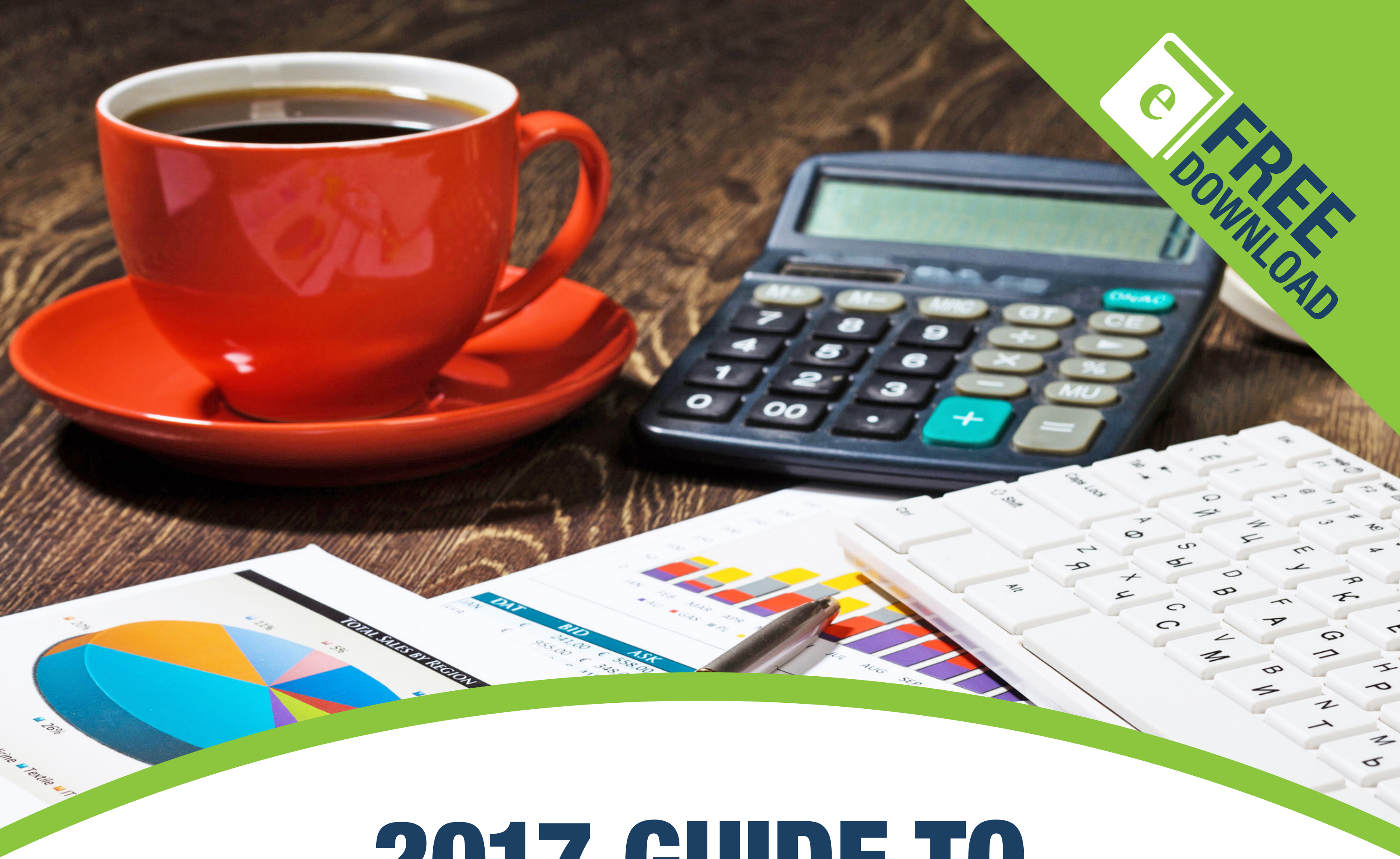

2017 GUIDE TO YEAR-END PLANNING

Timely Tips to Maximize Your Savings, Reduce Your Taxes and Prepare You for a Strong, Solid, and Prosperous 2018

PREPARED BY

ZINNER & CO. TAX DEPARTMENT

zinner&co.
Certified Public Accountants
Management Consultants
Since 1938

3201 Enterprise Parkway, Suite 410 • Beachwood, OH 44122
P: 216.831.0733 • F: 216.765.7118 • zinnerco.com

INTRO

Everything You Know is Wrong... or Right?

Dear Friends:

Thank you for downloading the 2017 Guide to Year-end Tax Planning.

When I was a college student, there was a comedy troupe from the west coast called Firesign Theater whose records I spent far too much time listening to. (If you don't know what records are, ask your parents or grandparents.) Firesign Theater engaged in a unique brand of stream of consciousness comedy that bordered on bizarre at times.

So, what does this have to do with year-end tax planning?

The obvious answer to this might be to describe the current climate in Washington as bordering on bizarre, but that wasn't where I was going. Looking at the current tax reform exercise that's playing out as this is written brings to mind the title of one of Firesign's albums, "Everything You Know Is Wrong."

You have no doubt read something about the tax reform process that is being negotiated. As of this writing, both the House and Senate have brought out their own separate legislative proposals that, while similar to one another in many ways, also differ in several significant ways. If either of these bills becomes law, or if some hybrid version of the two bills becomes law, it will represent the most drastic tax overhaul in over thirty years.

How likely is that to happen? The answer to that question is anyone's guess. As you will recall from the healthcare reform process that recently ended without legislation, the razor-thin Republican majority in the Senate leaves no room for discord among that majority. This is especially true if there is to be substantive tax legislation, which is a particularly contentious area of the law. Add to that a special Senate election recently contested in Alabama, and the razor-thin majority could become even thinner.

As a result, everything about federal income taxes could change ... or nothing could change. So, how does one effectively plan for either eventuality? Strangely enough, probably by engaging in what we tax professionals call Traditional Tax Planning.

Let's examine what that means in the context of the current climate starting on the next page. If you have any questions about the content in this Ebook, tax planning, or wish to discuss the impending changes on the tax law landscape and how it affects you or your business, please contact us at info@zinnerco.com or 216.831.0733.

Sincerely,
Howard J. Kass, CPA, CGMA, AEP®
Partner

TIMING IS EVERYTHING

Consider any opportunities you have to defer income to 2018. This time-honored strategy is effective whether tax reform legislation is passed, or not. If legislation passes, this can become an even more effective strategy.

Some examples of how to implement this strategy if you are a cash-basis taxpayer include the following:

- You may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services.
- You can also delay mailing invoices or statements to your customers. Doing so may allow you to postpone paying tax on the income until next year. If there's a chance that you'll be in a lower income tax bracket next year, deferring income could mean paying less tax on the income as well.

Similarly, consider ways to accelerate deductions into 2017. Many expenditures that are deductible under current law may become nondeductible under tax reform. Examples of such expenses include medical expenses and state and local taxes, to name two.

If you itemize, deductions you may want to accelerate include such deductible expenses as medical expenses or state and local taxes (mentioned above) or qualifying interest expense. You would accelerate these deductions by making payments before year-end.
In addition you might consider making next year's charitable contribution this year instead. This is particularly true if next year's proposed standard deductions are increased to the levels currently being discussed.

If there is no tax reform legislation passed this year, under certain circumstances, it may make sense to take the opposite approach — accelerating income into 2017 and postponing deductible expenses to 2018. That might be the case, for example, if you can project that you'll be in a higher tax bracket in 2018; paying taxes this year instead of next might be outweighed by the fact that the income would be taxed at a higher rate next year.

FACTOR IN THE AMT

While proposed tax reform legislation may result in the repeal of the alternative minimum tax (AMT), under current law it is still an unpleasant fact. Make sure that you factor it into your tax planning. If you're subject to the AMT, traditional year-end maneuvers, like deferring income and accelerating deductions, can have a negative effect because the AMT — essentially a separate, parallel income tax with its own rates and rules — effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2017, prepaying 2018 state and local taxes won't help your 2017 tax situation, but could hurt your 2018 bottom line.

SPECIAL CONCERNS FOR HIGHER-INCOME INDIVIDUALS

The top marginal tax rate (39.6%) applies if your taxable income exceeds $418,400 in 2017 ($470,700 if married filing jointly, or $235,350 if married filing separately, $444,550 if head of household). In addition, if your taxable income places you in the top 39.6% tax bracket, a maximum 20% tax rate on long-term capital gains and qualifying dividends also generally applies (individuals with lower taxable incomes are generally subject to a top rate of 15% and may even find themselves in a 0% tax bracket).

If your adjusted gross income (AGI) is more than $261,500 ($313,800 if married filing jointly, $156,900 if married filing separately, $287,650 if head of household), your personal and dependency exemptions may be phased out for 2017 and your itemized deductions may be limited. If your AGI is above this threshold, be sure you understand the impact before accelerating or deferring deductible expenses.

Additionally, a 3.8% net investment income tax (unearned income Medicare contribution tax) may apply to some or all of your net investment income if your modified AGI exceeds $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately). You will recall that this is one of the provisions that was introduced as part of the Affordable Care Act (Obamacare) and could be affected by proposed tax reform legislation.

Note, as well, that high-income individuals are also subject to an additional 0.9% Medicare (hospital insurance) payroll tax on wages or self-employment income exceeding $200,000 ($250,000 if married filing jointly or $125,000 if married filing separately).

IRAS AND RETIREMENT PLANS

Take full advantage of tax-advantaged retirement savings vehicles. Traditional IRAs and employer-sponsored retirement plans such as 401(k) plans allow you to contribute funds on a deductible (if you qualify) or pre-tax basis, reducing your 2017 taxable income. Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) aren't deductible or made with pre-tax dollars, so there's no current tax benefit for 2017, but qualified Roth distributions are completely free from federal income tax, which can make these retirement savings vehicles appealing.

For 2017, you can contribute up to $18,000 to a 401(k) plan ($24,000 if you're age 50 or older) and up to $5,500 to a traditional IRA or Roth IRA ($6,500 if you're age 50 or older). The window to make 2017 deferral contributions to an employer plan typically closes at the end of the year, while you generally have until the April tax return filing date to make IRA contributions.

ROTH CONVERSIONS

Year-end is a good time to evaluate whether it makes sense to convert a tax-deferred savings vehicle like a traditional IRA or a 401(k) account to a Roth account. When you convert a traditional IRA to a Roth IRA, or a traditional 401(k) account to a Roth 401(k) account, the converted funds are generally subject to federal income tax in the year that you make the conversion (except to the extent that the funds represent nondeductible after-tax contributions). If a Roth conversion does make sense, you'll want to give some thought to the timing of the conversion. For example, if you believe that you'll be in a better tax situation this year than next (e.g., you would pay tax on the converted funds at a lower rate this year), you might think about acting now rather than waiting. (Whether a Roth conversion is appropriate for you depends on many factors, including your current and projected future income tax rates.) With the possibility of tax reform looming on the horizon, the timing of such a conversion is something you will want to consider very carefully.

If you convert a traditional IRA to a Roth IRA and it turns out to be the wrong decision (things don't go the way you planned and you realize that you would have been better off waiting to convert), you can recharacterize (i.e., "undo") the conversion. You'll generally have until October 15, 2018, to recharacterize a 2017 Roth IRA conversion — effectively treating the conversion as if it never happened for federal income tax purposes. You can't undo an in-plan Roth 401(k) conversion, however. Stay tuned, however, as Tax Reform may eliminate this provision.

CHANGES TO NOTE

A significant change in the tax filing rules for tax-year 2017 is that the IRS will not consider a return complete and accurate if the taxpayer does not report full-year coverage, claim a coverage exemption, or report a shared responsibility payment on their tax return. If the IRS does not consider your return "complete and accurate," it will be as if you haven't filed at all, with the attendant penalties and interest that result from nonfiling.

If you didn't have qualifying health insurance coverage in 2017, you are generally responsible for the "individual shared responsibility payment" (unless you qualified for an exemption). The maximum individual shared responsibility payment for 2017 is 2.5% of household income with a family maximum of $2,085 for 2017, unchanged from 2016. For years after 2016, the individual shared responsibility payment is based on the 2016 dollar amounts, adjusted for inflation.

Since 2013, individuals who itemize deductions on Schedule A of IRS Form 1040 have been able to deduct unreimbursed medical expenses to the extent that the total expenses exceed 10% of AGI. However, a lower 7.5% AGI threshold has applied to those age 65 or older (the lower threshold applied if either you or your spouse turned age 65 before the end of the taxable year). Starting in 2018, the 10% threshold will apply to all individuals, regardless of age. This is something that you may want to factor in if you're considering accelerating (or delaying) deductible medical expenses. This too, is another area that could change drastically, depending on the results of any tax reform.

EXPIRING PROVISIONS

As you may recall, legislation signed into law in December 2015 retroactively extended a host of popular tax provisions — frequently referred to as "tax extenders" — that had already expired. Many of the tax extender provisions were made permanent, but others were only temporarily extended. The following provisions are among those scheduled to expire at the end of 2017.

- Above-the-line deduction for qualified higher-education expenses
- Ability to deduct qualified mortgage insurance premiums as deductible interest on Schedule A of IRS Form 1040
- Ability to exclude from income amounts resulting from the forgiveness of debt on a qualified principal residence
- Nonbusiness energy property credit, which allowed individuals to offset some of the cost of energy-efficient qualified home improvements (subject to a $500 lifetime cap)

With the prospect of tax reform currently being debated in Congress, all bets are off for the extension of these provisions.

TALK TO A PROFESSIONAL

When it comes to year-end tax planning, there's always much to think about. Our tax professionals can help you evaluate your situation, keep you apprised of any legislative changes, and determine whether any year-end moves make sense for you. If you have questions as to how this applies to you and your circumstances, we would be pleased to have that conversation with you.

FINAL THOUGHTS

The content in this Ebook is a compilation of trusted sources, including the Internal Revenue Code and Tax Regulations, information culled from IRS.gov, the AICPA, and other sources.

While we strive to bring you only the most accurate and up-to-date information, be aware that changes in the law can occur at any time. Consult with your tax advisor prior to any tax filing.

Understanding changes in the tax law can be confusing and daunting. Becoming financially informed begins with smart advice from a trusted advisor.

Our practitioners advise countless clients to help prepare their business and individual taxes. Contact us at 216.831.0733 or info@zinnerco.com. We're happy to help and ready to start the conversation.

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ABOUT THE ZINNER & CO. TAX DEPARTMENT

Lead by partner Howard Kass, CPA, CGMA, AEP®, the taxation department team works with individuals and businesses to create and develop meaningful strategies to yield positive financial outcomes. The team guides and counsels clients in federal, state and local taxation in addition to sub-specialty area's within taxation, such as business tax, individual tax, IRS matters, estate, gift and trust services and international tax planning.

Howard J. Kass, CPA, CGMA, AEP®
Partner

Brett W. Neate, CPA, M.Tax
Partner

Gary Sigman, CPA, M.Tax, PFS, AEP®
Senior Manager

Barb Theofilos, CPA, MBA
Accounting & Tax Supervisor

DeAnna Alger, CPA, MBA
Accounting & Tax Supervisor

Matt Szydlowski, CPA
Tax Supervisor

Silvia McClellan, CPA
Senior Accountant

Eric James
Staff Accountant

A BIT ABOUT US

In 1938, Harry Zinner had a vision for long term success. He founded a Cleveland-based bookkeeping firm that focused on integrity, commitment and a pledge to help individuals, not-for-profit organizations and closely-held companies grow and prosper, not just for today, but for decades to follow.

Today, Zinner & Co. provides tax, accounting and management advisory services to guide businesses from startup to succession planning and help individuals create a solid financial foundation.

Our Beachwood, Ohio office is home to a dedicated team of CPAs and management advisors that provide a full slate of services beyond traditional tax and accounting. Contact us to discover how we can help you achieve your greatest financial potential.

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Partners

Howard Kass, CPA, CGMA, AEP®
Gabe Adler, CPA, CGMA
Robin Baum, CPA
Brett Neate, CPA, M.Tax
Susan Krantz, CPA, CGMA