For 2017, we have essentially the same tax rules and rates that we have seen since the last tax reform in 1986. For 2017, the top federal income tax rate is 39.6%. Higher-income individuals can also be hit by the 0.9% additional Medicare tax on earned income and the 3.8% Net Investment Income Tax (NIIT). The Alternative Minimum Tax (AMT) is still in place and must be considered before undertaking any 2017 tax planning.

While 2017 remains similar to last year's tax, big changes could be in store for 2018. The Trump Administration and some members of Congress have released a "unified framework" for tax reform. The document provides more detail but it still leaves many specifics to be worked out by the Congressional tax-writing committees.

Proposed changes to individuals would:

- Increase the standard deduction to $24,000 for married taxpayers filing jointly, and $12,000 for single filers;
- Eliminate the personal exemption and the additional standard deductions for older/blind taxpayers;
- Reduce the number of tax brackets from seven to three: 12%, 25%, and 35%;
- Increase the child tax credit;
- Repeal the individual alternative minimum tax;
- Largely eliminate itemized deductions, but retain a limited home mortgage interest, property tax and charitable contribution deductions; and
- Gradually repeal both the estate tax and the generation-skipping transfer tax.

Proposed changes to businesses would:

- Reduce the corporate tax rate to 20% (down from the current top rate of 39%);
- Provide a maximum 25% tax rate for "small" and family-owned businesses conducted as sole proprietorships, partnerships and S corporations;
- Provide full expensing for the purchase of equipment and other long lived assets;
- Partially limit the deduction for net interest expense incurred by C corporations;
- Repeal most deductions and credits, but retain the research and low-income housing credits;
- Modernize special tax rules that apply to certain industries and sectors;
- Provide a 100% exemption for dividends from foreign subsidiaries.

Tax reform is not a simple process. With the uncertainty surrounding the Trump tax plan, or any tax reform for that matter, there are some tax planning opportunities that should be considered regardless of what happens in 2018.

A good way to start your year-end tax planning is by thinking about any changes in your personal life that may have an impact on your 2017 taxes. For example, a change in your marital status or dependents, a job change, a move, a new home, starting a business or retirement can all have tax implications. The tax professionals at Williams & Parsons, CPA's are ready to discuss these life changes and help you with your year-end tax planning.

Tried & True Tax Planning Strategies for Individuals

- You may be able to reduce your taxes by contributing to a retirement plan. If your employer sponsors a retirement plan, such as a 401(k), 403(b) or SIMPLE plan, your contributions avoid current taxation, as will any investment earnings until you begin receiving distributions from the plan. Remember that most plans allow for last minute contributions and some, like the IRA, can be funded in early 2018. See our discussion on "Don't pass up tax free income" later for more details.

2017 Retirement Plan Contribution Limits

Type Of Plan	Under Age 50	Age 50+
IRA/Traditional and Roth	$5,500	$6,500
401(k)/403(b)	$18,000	$24,000
Simple IRA	$12,500	$15,500

• Realize losses on stock while substantially preserving your investment position. There are several ways this can be done. For example, you can sell the original holding, and then buy back the same securities at least 31 days later. Alternatively you can sell your original holding and immediately buy back something similar (but not identical). It may be advisable for us to meet to discuss year-end trades.

• If your 2017 taxable income is low, consider converting a traditional IRA into a Roth IRA if eligible to do so. Keep in mind that such a conversion will increase your adjusted gross income for 2017.

• It may be advantageous to try to arrange with your employer to defer a bonus that may be coming your way until 2018.

• Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2017 deductions even if you don't pay your credit card bill until after year end.

• If you expect to owe state income taxes when you file your return next year, consider paying that state tax with an estimated payment or increased withholding prior to year-end to pull the deduction of those taxes into 2017. But beware that it could create an alternative minimum tax (AMT) problem.

• You may be able to save taxes this year and next by applying a bunching strategy to itemized deductions. See "Timing Matters" for more detail.

• Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retired plan) if you have reached age 70- 1/2. 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- 1/2 in 2017, you can delay the first required distribution to 2018, but if you do, you will have to take a double distribution in 2018-the amount required for 2017 plus the amount required for 2018.

• Increase the amount you set aside for next year in your employer's health flexible spending account (FSA) if you set aside too little for this year.

• If you are eligible to make health savings account (HSA) contributions in December of this year, you can make a full year's worth of deductible HSA contributions for 2017. This is so even if you first became eligible on Dec. 1, 2017.

• Making qualified energy saving improvements in your home prior to the end of 2017 will allow you to claim a 10% energy credit, up to a lifetime limit of $500.

Tax Planning Strategies for Businesses and Rentals

• Buy equipment. Under Section 179 of the tax code, (for 2017 your business residential rental does not qualify) you can claim a maximum deduction of $510,000, subject to a phase-out threshold of $2,010,000. You can also claim 50% bonus depreciation on qualified property placed in service this year.

• Make building improvements. Last year's PATH Act permanently extends the shorter 15-year depreciation period for qualified leasehold improvements, restaurant property, and retail improvements.

Timing Matters

Timing plays a big role in year-end tax planning for individuals and businesses. With major tax reform pending for 2018, timing could play a major role in tax planning. Typically, you will want to find ways to delay income to 2018 and accelerate deductions to the current tax year. However, if you expect to be in a higher tax bracket in 2018, consider the opposite, and push expenses into the year with higher income and accelerate income into the year with lower tax brackets. To increase deductions in the current year, consider paying your property taxes, charitable

contributions or state income taxes in 2017 rather than in 2018. To defer income, you might delay a year-end bonus to early 2018 or increase your pension deferrals.

Another good timing strategy is to bunch expenses in one tax year. If you don't have enough itemized deductions to itemize every year, or your itemized deductions are just barely above the standard deduction, consider bunching your itemized deductions. This means that you pile on your itemized deductions every other year, giving yourself the maximum itemized deduction for that year. You then take the standard deduction in the alternate years.

During the year you plan to itemize, do everything you can to make your itemized deductions exceed your standard deduction. Pay every bill that will result in an itemized deduction. Bunching works particularly well for those itemized deductions that are subject to a threshold amount--that is, are not deductible until they exceed a specific percentage of your adjusted gross income (AGI). For example, medical expenses are not deductible until they exceed 10% of your AGI. Job expenses and certain miscellaneous deductions are subject to a 2% of AGI threshold. Bunching these deductions into a single year helps beat these threshold amounts.

Tax Planning for Investments

The 2017 federal income tax rates on long-term capital gains and qualified dividends are 0% (for those in the 15% bracket or lower), 15% (most taxpayers), and 20% (for those with taxable income above $418,400 for singles and $470,700 for marrieds).

High-income folks can also be hit by the 3.8% NIIT, which can result in a marginal long-term capital gains/qualified dividend tax rate as high as 23.8%. Still, that is substantially lower than the top regular tax rate of 39.6% (43.4% if the NIIT applies).

If you hold appreciated securities in taxable accounts, owning them for at least one year and a day is necessary to qualify for the preferential long-term capital gains tax rates. In contrast, short-term gains are taxed at your regular rate, which can be as high as 39.6% (43.4% if the NIIT applies) plus your state tax rate. Whenever possible, try to meet the more-than-one-year ownership rule for appreciated securities held in your taxable accounts. (Of course, while the tax consequences are important, they should not be the only consideration for making a buy or sell decision.)

Dividends earned from your investments can be taxed at capital gain or ordinary income rates. The distinction matters because the maximum capital gain rate is 20%, while ordinary income can be taxed at rates up to 39.6%. For capital gain rates to apply, the dividends you receive have to meet certain requirements, one of which is a holding period for the underlying stock.

You might consider selling securities that will generate capital losses. Capital losses are generally deductible in full against capital gains and any excess capital loss will offset up to $3,000 in ordinary income. Capital losses not used in 2017 can be carried forward to future years.

If you have appreciated securities in your portfolio and are inclined to make charitable contributions, consider making a gift of the appreciated securities to your favorite charity. You can deduct the full fair market value of the donated securities (subject to income limitations) and you avoid the capital gains tax.

Finally, how is your investment portfolio holding up? Williams & Parsons has two Certified Financial Planners on staff, and they would be happy to meet with you to discuss our services. Schedule your free, no-obligation consultation with one of our advisors and see how we can help you plan for your future.

Don't Pass up Tax-free Income

As previously summarized, contributing to a retirement plan can result in significant tax savings – now and in the future. Make sure you take full advantage of retirement plan opportunities. The earnings on most retirement accounts are tax-deferred. (With Roth IRAs, they're normally tax-free.) Thus, the sooner you fund such an account, the quicker the tax advantage begins. However, if your employer offers a 401(k) or SIMPLE-IRA plan, you'll probably want to contribute enough to that plan to receive a full employer match before making an IRA contribution.

Income you earn from your job or your business is taxed at ordinary rates on your federal income tax return. When your wages or self-employment income exceeds $200,000 if you are single, or $250,000 when you file jointly, you'll also owe an additional Medicare tax of 0.9% on the amount over the threshold.

One way to reduce your tax liability when the bulk of your income is from employment is to maximize contributions to tax-deferred retirement plans, such as 401(k) plans and deductible IRAs. You get a double benefit from your contributions: tax deferral on asset growth inside the plan and a lower adjusted gross income in the current year that can increase other tax breaks. Similarly, you may also want to take full advantage of other employer-provided benefit programs, such as flexible spending accounts.

Fund a deductible IRA. You can make a 2017 IRA contribution as late as April 17, 2018. There are no income restrictions on making a deductible IRA contribution if you or your spouse did not participate in an employer sponsored retirement plan during any part of 2017. If you do participate in a retirement plan, you might still be able to make a deductible contribution if your adjusted gross income is under $62,000 for a single taxpayer or $99,000 if married filing jointly.

Consider investing in tax-free securities. Whether these provide a better return than the after-tax return on taxable investments depends on your tax bracket and the market interest rates for tax-exempt investments. These factors change frequently, so it's a good idea to periodically compare taxable and tax-exempt investments.

About to retire? Benefit from advance planning.

As you approach retirement age, you will have to manage many risks to secure your well-being. The risk of inflation, volatile markets, and outliving your retirement savings all threaten your nest egg. Taxes will also present a risk to your savings. Here are tips to consider in the years before you retire.

Diversify your savings. Maximizing contributions to tax-deferred retirement accounts, such as IRAs and employer-sponsored plans, can reduce your current taxable income as well as defer the tax on asset growth into your retirement years. But you'll also want to supplement retirement plan assets with investments in taxable accounts. Having the option to take funds from those accounts allows you to maximize the tax-deferred growth in your retirement plans.

Consider a Roth conversion. Roth conversions may be a smart move because Roth accounts have tax

advantages over traditional IRAs. For example, you're generally not required to take distributions from a Roth no matter your age, unless the Roth is inherited or it is a Roth 401(k). The downside is that you'll pay current-year income tax on the amount you convert, so you'll need to plan around your expected current and future income tax rate.

Take advantage of tax-free bond income. Bonds issued by state and local government entities generate income that's free from federal income tax and generally not subject to the 3.8% Medicare surtax. On the downside, tax free bond interest is considered in the calculation of whether your social security benefits will be taxed.

Once you retire, your savings may have to provide income for a span of 30 years or more. Planning in advance can help you minimize the tax you'll owe during those years. Give us a call. We're here to help you prepare now for life after work.

Social Security Planning

Deciding when to sign up for Social Security is not as simple as it sounds. A wrong choice could greatly reduce what you and your spouse receive during retirement. Know your social security options. We understand the complex rules around social security and can help you make the right decisions.

If you're still working but nearing the age where you could begin to collect social security, a major question is when to start receiving payments. While one goal is to maximize your lifetime benefit, factors such as what other sources of income you can rely on will influence your final decision. In general, the longer you wait — whether that's until you reach your full retirement age or age 70, when your benefit stops increasing — the more you'll collect each month.

Don't Overlook Estate and Gift Tax Planning

Even though the proposed Trump Tax Reform calls for gradually eliminating the Estate Tax, it is good to understand the current Estate Tax environment. For 2017, the unified federal gift and estate tax exemption is a generous $5.49 million and the annual gift exclusion is $14,000. Estates that exceed the exemption are taxed up to 40%. Even if you already have an estate plan, it may need updating to reflect the current estate and gift tax rules. Also, you may need to make some changes that have nothing to do with taxes. Contact us if you think you could use an estate planning tune-up.

In Conclusion

This letter is intended to give you some thoughts on tax planning for 2017 and with the proposed tax reform of 2018, some insights as to what is being discussed. We would like to discuss your situation in detail to see how these and other planning ideas can be used to reduce your tax bill. Please don't hesitate to **call us at (208) 265-5959** if you would like more details or to schedule a tax planning strategy session.

An Important Note on 2017 Tax Returns.

For various reasons, including personal ID security, many of our clients have expressed that they do not want a printed final copy of their tax return. As you know, your previous year's tax returns are available in our secure client portal. Your returns can be viewed, printed and saved to your own computer from this portal. If you do not know about this feature, please ask us for assistance.

For this upcoming tax season, we will **NOT** automatically provide a printed copy of your final tax returns. We will upload the final tax returns, payment vouchers and estimated tax payment vouchers to your secure portal. We will contact you when the 2017 returns are uploaded to your portal and available for review. We will only print a copy of your final tax return when requested to do so.

Hail & Farewell!

Welcome our newest associate, Jesse Raynor.

Jesse has a Master of Accountancy Degree with an emphasis in Taxation. Jesse specializes in tax planning, state and federal tax compliance, and small business consulting. He has 18 years of industry experience in general contracting, specialty trade construction, real estate development, sales, manufacturing, and service. Jesse began his career in public accounting with a regional office that joined the national accounting firm of CliftonLarsonAllen. He lived on the Pend Oreille River as a child, and moved back to Northern Idaho in 2017 after several years as the managing partner of a practice in Utah.

Saying Farewell to Dawn Boyle.

It is with deep regret that we must say goodbye to Dawn. As we announced last year, Dawn has relocated, deciding New Mexico would be her family's new home. For the upcoming 2018 tax season, she will be available as needed to assure that our clients are not impacted by her move. Dawn is greatly missed!

This letter is written in general terms for the widest use possible. This is intended as a guide only; the application of its concepts to certain situations will depend on the circumstances involved. Accordingly, we recommend that readers seek appropriate professional advice before implementing any strategies. This letter should not be relied on as a substitute for that advice. If you have questions about how tax law or other financial matters may affect you, please call us at (208) 265-5959. Tax advice included in this communication was not intended or written to be used, and cannot be used by a taxpayer, for the purpose of avoiding any penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.

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