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Dear Client

Although tax planning is a 12-month activity, year-end is traditionally the time to review tax strategies from the past and to revise them for the future. Year-end has also become a time when there is an increasing need to take a careful look at what's changed within the tax law itself since the beginning of the year. Opportunities and pitfalls within these recent changes – as they impact each taxpayer's unique situation—should not be overlooked. This is particularly the case during year-end 2016. Here are some of the many considerations that taxpayers should review as year-end 2016 approaches.

Data, including 2015 return

Year-end planning should start with data collection and a review of prior year returns. This includes losses or other carryovers, estimated tax installments, and items that were unusual. Conversations about next year should include review of any plans for significant purchases or dispositions, as well as any possible life changes. Alternative minimum tax liability also needs to be explored as well as potential liability for the net investment income tax and the Additional Medicare Tax.

PATH Act "extenders" and more

The Protecting Americans from Tax Hikes Act of 2015 (PATH Act), enacted immediately before the start of 2016, permanently extended many tax incentives that were previously temporary, removing for the first time in many years the year-end concern over whether these incentives will be extended either retroactively for the current year or prospectively into the coming year. Not all of these "extenders" provisions were extended beyond 2016, however; and some were modified in the process. Others were extended for up to five years, deferring to "tax reform" a more lasting solution. Here's a list of the major changes made by the PATH Act, especially focused on how they impact year-end transactions:

- permanent American Opportunity Tax Credit
- permanent teachers' $250 "classroom" expense deduction
- permanent state and local sales tax deduction election, in lieu of state income taxes
- permanent exclusion for direct charitable donation of IRA funds of up to $100,000
- mortgage insurance premium deduction through 2016
- tuition and fees deduction through 2016

Get Your Charitable House in Order

If you plan on giving to charity before the end of the year, remember that a cash contribution must be documented in order to be deductible. If you claim a charitable deduction of more than $500 in donated property, you must attach Form 8283. If you are claiming a deduction of $250 or more, you will need a written acknowledgement from the charity that includes specific wording for deductibility. Remember, you cannot deduct donations to individuals, social clubs, political groups or foreign organizations.

Take a Closer Look at Your State Residency Status

For individuals who split their time in two different states throughout the year, now is an excellent time to consider where you may be taxed as a resident for 2016. To make it more likely that the high-tax jurisdiction will respect the move and not continue to tax you as a resident, you should track the number of days you are spending in each jurisdiction. Generally, if you reside in a state for 183 days or more, that state will assert residency and the ability to tax all of your income. Furthermore, if you move to a new state but you maintain significant contacts with the old state (including driver's license, residences, bank accounts and the like), you could run the risk of being taxed as a resident in the old state.

Manage Your Gains and Losses

Capital gains and losses present excellent opportunities for deferral because you have nearly complete control over when you sell them, but be careful when harvesting losses. You generally cannot use capital losses against other kinds of income, and if you buy the same security within 30 days before or after you sell it, you cannot use the loss under the wash sale rules.

Bunch Itemized Deductions

Many expenses can be deducted only if they exceed a certain percentage of your adjusted gross income (AGI). Bunching itemized deductible expenses into one year can help you exceed these AGI floors. Consider scheduling your costly non-urgent medical procedures in a single year to exceed the 10 percent AGI floor for medical expenses (7.5 percent for taxpayers age 65 and older). This may mean moving a procedure into this year or postponing it until next year. To exceed the 2 percent AGI floor for miscellaneous expenses, bunch professional fees like legal advice and tax planning, as well as unreimbursed business expenses such as travel and vehicle costs.

Make Up a Tax Shortfall with Increased Withholding

Don't forget that certain kinds of taxes are due throughout the year. Check your withholding and estimated tax payments now while you have time to fix a problem. If you're in danger of an underpayment penalty, try to make up the shortfall by increasing withholding on your salary or bonuses. A bigger estimated tax payment can leave you exposed to penalties for previous quarters, while withholding is considered to have been paid ratably throughout the year.

A New Administration

When the new Administration moves into Washington in January 2017, it is clear that changes will follow. How these changes will impact your long-term tax situation remains to be developed. That, and an eventual groundswell for tax reform, make the future more difficult to read than in prior years. Nevertheless, in looking toward the future, you should not lose sight of the short term tax dollars to be saved immediately through 2016 year-end strategies.

For Business Owners ONLY: Prepare Your Information Reporting

You should start gathering information early this year to make sure you can complete your mandatory reporting on time. Congress has enacted new legislation that more than doubles most penalties for late or incorrect information returns. This includes the Form W-2 employers must provide to all employees and the Form 1099 a business must provide to any contractor it pays at least $600 for services. These returns are due to recipients by Feb. 1 and the IRS soon after.

Please feel free to call our offices if you have any questions about how year-end tax planning might help you save taxes. Our tax laws operate largely within the confines of "the taxable year." Once 2016 is over, tax savings that are specific to 2016 may be gone forever.

Sincerely yours,

Wilhelm & Wilhelm, LLC