McRuer CPAs

2017 McRuer CPAs Year-End Tax Tips Guide

Here are a few of the main financial topics that we believe are the most relevant for the greatest number of taxpayers. A review of this guide will help you consider whether action is needed before the end of the 2017 tax year. Please consult with your McRuer CPAs Tax Planning Team Member to confirm which topics may apply to your specific individual and business financial goals.

Tax and Financial Planning Tips Included in This Guide:

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Income Timing & Tax Withholding Review

If you are a taxpayer that can control when you take income and pay your expenses, you can take steps that may lower your 2017 income. This could put you into a lower tax bracket and help minimize taxes on dividends, interest and capital gains. If you can, consider diverting income, bonuses, and discretionary and other income into 2018.

For example, if you are an independent consultant you may ask for payment on a contract to be made in 2018. Another example; if you are someone who receives a year-end holiday bonus, you may request that you not be issued a check until January of 2018. That may help to lower your 2017 taxable income enough to make a difference on your overall tax obligation.

If you receive a regular paycheck, it is important to take a closer look at tax withholding on your income. If you are a taxpayer who has received a large tax refund or paid a large tax bill in past years, it is a sign that you may need to adjust your withholding amount.

Taxpayers with more than one job should also confirm that they are having enough tax dollars withheld. The rate of withholding should be based on the combined income from all jobs and income resources. Also, if you left one employer and began a new job at a new employer, it's important that you are having the proper amount of taxes withheld based on your total income, rather than just the income from your new employer.

If you make quarterly estimated tax payments throughout the year, confirm that you are earning the amount of income that you estimated and make adjustments to your withholding or your quarterly payment in January of 2018 if your income is different than you expected. Remember, there may be penalties for underpaying estimated income taxes.

Reducing Taxes on Investment Gains

Losing money is not the purpose of investing, but it happens! Keeping a well-diversified portfolio is important and it may include strategies that use investments that have lost values to offset the gains realized on other investments.

Tax-loss harvesting is a strategy that's best reviewed by a tax professional, such as your McRuer CPAs Tax Planning Team Member. Tax-loss harvesting is about selling stocks, bonds, mutual funds, or other investments that have lost value to reduce taxes on realized capital gains from investments that are growing. It's crucial that you evaluate why you own what you own and then identify slow-growing or declining investments.

Tax-loss harvesting can offset capital gains losses from stocks, bonds, mutual funds, and exchange-traded funds (ETFs).

Consider these steps as you review how tax-loss harvesting may lower your tax obligation:

- determine your short-term and long-term capital gains,
- estimate your potential capital-gains tax liability,
- look for tax-loss selling candidates in your portfolio that either no longer fit your strategy or have poor prospects for future growth,
- and harvest the losses and prioritize your tax savings.

Remember, in order to maximize your potential tax savings, you should apply as much of your capital loss as possible to short-term gains, because they are taxed at a higher marginal rate. The tax code mandates that short- and long-term losses must be first used to offset gains of the same type of investment, but if your losses exceed your gains of the same type, then you may apply the excess to the other type.

Be mindful of the wash sale rule. The rule states a taxpayer may lose the tax write-off completely if the same security that is sold under the tax-loss harvesting strategy is bought back, through a contract or option to buy, within 30 days of the date it was sold. This rule also applies if the newly purchased security is not exactly the same security, but is "substantially identical".

So, what if you did not have any taxable capital gains in 2017? You may use realized capital losses to offset up to $3,000 a year in ordinary income, which is taxed at the same rate as short-term capital gains and nonqualified dividends. If you still have unused capital losses, you can carry them forward for use in future years until you use them all.

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Charitable Contributions

Charitable contributions must be made by December 31st to qualify for 2017 deductions. It's important to keep track of all types of donations with proper documentation including receipts and required forms. To deduct non-cash contributions over $250 you must have a written receipt that describes the item, its fair market value, the name of the qualified charity that received the donation, whether you received anything in exchange for the gift, and more. Non-cash donations valued at $5,000 or more (for items such as artwork, jewelry, stamp collections) must have documented proof of the claimed fair market value from a qualified appraiser.

You may consider donating appreciated stock or real estate to a charitable organization. If you sell a stock that has increased in value, the capital gains will be subject to tax, but if you give the stock away to a qualified charity, you are able to deduct its fair market value.

If you are contemplating donating stock for a loss, consider selling the stock first, so you may claim the loss on the sale. You may then donate the proceeds from the sale to a qualified charity and also deduct the cash contribution as a charitable donation.

The process of selling and gifting stocks and real estate takes time, so you should begin the process long before the December 31st deadline to make this type of donation.

Consider making cash gifts to family and friends. An individual may give up to $14,000, and married couples up to $28,000, before incurring a gift tax. You may choose to set up or donate to 529 Plans to help with the education costs for a relative, friend or even yourself. Contributions cannot exceed the amount necessary to pay for qualified education expenses. Payments for tuition are not taxable gifts if they are made directory to the educational institution on behalf of the student. Inter-family loans are also an option to allow you to lend money to family members at a low interest rate without incurring gift or estate tax subject to certain rules and limits.

Retired taxpayers may have an option that fulfills their RMD (required minimum distribution) through a direct transfer of funds from an IRA custodian payable to a qualified charity (QCD). You must be at least 70 ½ years of age to use this option. If you are eligible, a QCD counts toward your RMD for the year, up to $100,000, and is not included in your taxable income.

IRA Contributions & Required Distributions

Contributions to retirement plans such as a 401(k) plan must be made before December 31st. Your taxable income will be reduced by the total amount of your contributions for the year if you use pre-tax dollars to make those contributions. But deadlines are different for your IRA contributions. IRA contributions up to limited amounts should be deposited no later than your tax filing due date, which is April 17, 2018 for the 2017 tax year. Yet, remember you can contribute to your IRA any time during the year. The earlier you contribute, the more time your money will have to benefit from potential growth.

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Those of you aged 50 and over should consider catch-up provisions in the tax code that allow you to increase your contribution to a Traditional or Roth IRA by $1,000 for a total contribution of $6,500 in 2017. If you participate in a 401(k), 403(b), or similar workplace retirement savings plan, you may contribute an additional $6,000 if you are aged 50 and up, for a total contribution of up to $24,000 a year in 2017. Individuals participating in a SIMPLE IRA designed for small businesses and self-employed individuals may take advantage of a $3,000 catch-up contribution if they are age 50 or older, bringing their total contribution up to $15,500 for 2017.

If you have had some large capital losses this year, you may consider converting some traditional IRA or 401(k) money into a Roth IRA, where withdrawals after age 59 ½ are tax free. You'll pay income taxes now on the converted amount, but you'll pay lower taxes in retirement.

If you are age 70 ½, you may be required to begin taking required minimum distributions (RMD) from your tax-deferred retirement accounts no later than December 31st. If this is the first year for your RMD, you may delay that first distribution until April 1, 2018, but that will mean that you will actually be taking two RMDs in 2018—the delayed first payment and then the required payment by December 31st. That could push your income into a higher tax bracket. Not taking the RMD by the deadline risks a tax penalty of up to 50% of the amount not taken. Discuss the advantage of meeting the deadline and the possibility of having automatic monthly, annual or customized RMDs with your tax planning professional on the McRuer team.

This is also a good time to review how and when you withdraw money from your retirement accounts as your expenses, income and life events may have changed in the last year. Making certain the time is right to withdraw funds from tax-exempt accounts like Roth IRAs, Roth 401(k)s and HSAs is crucial to ensure your savings will last as long as you anticipated in retirement. Remember that withdrawals from tax-deferred accounts are considered as ordinary income and may bump your income into a higher tax bracket.

If you happen to earn too much income to qualify for making Roth IRA contributions, you may benefit from the 'backdoor' Roth IRA strategy. You would first make a contribution to a non-deductible Traditional IRA and then convert that Traditional IRA to a Roth IRA. The backdoor method works because there are no income limits to conversions. The backdoor Roth move must be made by December 31st. However, a tax may be due on the conversion under the pro rate (aggregation) rules. The amount due will depend upon the ratio of IRA assets that have been taxed to those that have not. Check with your McRuer Tax Team Member to determine if this kind of strategy will work for you.

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Health Savings Accounts (HSA)

A Health Savings Account (HSA) has triple tax benefits. First, your contributions are made with pretax dollars, so you reduce your current taxable income. Second, earnings and withdrawals from HSAs are not subject to federal tax if they're used to pay for qualified medical expenses now or in retirement. Third, what you don't spend can remain invested and may be used to help pay for future health expenses.

If you have an HSA associated with a High-Deductible Healthcare Plan (HDHP), make certain you are set to contribute the maximum allowable amount in 2018. Contributions may be made up to $3,450 for an individual and $6,900 for a family, plus an extra $1,000 if you are age 55 or older. With the catch-up, the total HSA contribution potential for 2017 is $4,400 for individuals and $7,750 for families.

With only a few weeks left in the year, you may want to consider paying for current-year qualified medical expenses out of pocket, and letting your HSA contributions remain invested in your HSA. That way it has the potential to grow tax free and be used to pay for future qualified medical expenses, including those in retirement.

Business Tax Tips & Reminders

As you take steps to close out your year financially, this is a good time to determine whether your business is participating in all the ways that allow you to minimize your taxes owed, save money for retirement, and provide competitive benefits to employees.

Confirm Financial Reports

Your goal-setting process needs accurate and timely information to result in the right and most relevant steps to keep your business running successfully. If you see something unusual, there may still be time to make corrections for 2017 and/or plan for improvements in 2018.

Determine the Value of Deferring Income

Any income received by December 31st counts as income for 2017. To reduce your business tax liability, you may find that shifting income to after January 1st may provide a significant tax savings, especially if 2017 profits were higher than expected.

It May be Time to Make Purchases

The last months of the year are usually a good time to spend money on items your business needs in order to maximize tax deductions from business expenses. Consider whether equipment needs upgrading, systems need renovation, office supplies need re-stocking and more. You may also consider whether expected payments to vendors or contractors can be made in advance, if the payment would qualify as an expense deduction.

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Run an Inventory Check
This is a good time to check your inventory. If there has been a drop in the market value of inventory, you may be able to claim certain deductions. This depends on your accounting methods, so make sure you check with your McRuer Tax Planning Team Member to see if this makes sense for your small business.

Start or Contribute to a Retirement Plan
Make payments to your retirement plan or set one up before December 31st to reduce your income for this year. Now is the time to max out your contributions. If you haven't yet set up a retirement account, ask us about which plan is best for you and your business.

Defined benefit plans may offer one of the largest plan tax deductions. In fact, the size of the contribution can be as large as is actuarially determined to obtain the desired result, which at its federally-set maximum is now a pension up to $210,000 a year. Depending on the age and income of the owner, that could mean allowable annual contributions at least that large. If the business chooses to add life insurance in their defined benefit plan, the life insurance premiums are tax deductible to the business and can be paid with pre-tax dollars.

Top candidates for defined benefit plans are highly profitable small businesses with fewer than 10 employees; businesses like law firms and medical groups who are looking for tax deferral and asset protection; and older business owners who have delayed saving for retirement as they may have used much of their past profits to build their business.

Contribute to Charity
Charitable contributions by businesses not only show you are a good community partner, but also can help your business finances. These donations to a qualified charity must be made by December 31st. Remember, you have more options than cash to donate. Your business can donate items such as toys, computers, office supplies for non-profits and other goods, and claim the fair market value as a tax deduction. Proper receipts and proof the donation was made to a qualified charity are required. A claim of a donation valued above $5,000 must be documented by a qualified appraiser.

In Conclusion
Please consider the benefit of gathering your information now and talking with one of our tax planning professionals. Call us now to schedule your 2017 Year-End Tax Planning Session. You'll not only be better prepared to make the best financial choices in a timely less pressured way, but you'll gain peace of mind knowing that you have an up-to-date and active plan to pay only the taxes you owe.

Thank you and please call McRuer CPAs to confirm your 2017 Year-End Tax Planning Session right away:
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