Year End Tax Planning Tips 2016



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With most of 2016 behind us, you may want to consider some year-end tax-saving ideas. Before acting on these, note the following:

- Most strategies do not apply universally, but only in specific circumstances.
- Many strategies should take into account not just the current year's impact, but future years' projected impacts as well.
- Strategies that reduce your current year regular federal income tax may not reduce your overall federal income tax due to the alternative minimum tax.

Section 179 and bonus depreciation — Businesses should consider these tax breaks related to fixed asset acquisitions:

- Section 179 depreciation deduction. In 2016, individuals and business entities can elect to deduct up to $500,000 of qualifying business property cost in the year the property is placed-in-service. The deduction is reduced dollar-for-dollar for qualifying property cost greater than $2,000,000. Note that this deduction is available only to the extent of positive business taxable income.
- Special "bonus depreciation" allowance. For 2016, an additional depreciation deduction is permitted for qualifying property in the year it is placed in service. This bonus depreciation is a deduction of 50% of the qualifying property's cost.

Capital gains and losses — If you have realized net capital gains during 2016, consider realizing capital losses before the end of the year to offset the gains. Remember that net long-term losses can be used to offset net short-term capital gains which otherwise would be taxed at ordinary rates. Also, be aware of the "wash sale" rules if you are inclined to reinvest in a security you sell at a loss.

Self-employed retirement plans — If you have self-employment income and don't have a retirement plan in place to shelter any of it, you may qualify to use a Self-Employed Plan (SEP). A SEP contribution deduction is allowed for 2016, even if the SEP is created and funded at any time up to the due date, including extensions, of the 2016 income tax return in 2017.

Charitable contributions — Consider funding charitable gifts with appreciated marketable securities held for more than one year, resulting in gains being untaxed and deductions being allowable at the securities' market values. You may also charge charitable contributions on your credit card; contributions posted to your account before year-end are deductible this year, even if you do not pay the charges until next year.

Annual gifting — You may give your children and others up to $14,000 each in 2016 without any gift tax consequences. This annual exclusion is calculated on a per donee basis and no carryover is allowed for the unused exclusion. Consider making year-end gifts to fully utilize this year's annual exclusion, and consider making your 2017 annual exclusion gifts (also at $14,000 per donee) early next year.

Required minimum distributions — Individuals with retirement plan accounts (employer qualified plans or IRAs) generally are required to take minimum annual distributions upon reaching age 70 ½. Steep penalties apply to noncompliance, and not all IRA custodians or plan sponsors actively communicate the applicability of the rules to account holders and plan participants.

S Corporation and partnership losses — If your S Corporation will generate a tax loss this year, consider whether you have enough basis in the stock (or in loans you've made to the corporation) to take the full loss. If you don't, additional investments should be considered. Similar considerations can arise in some situations with partnerships expecting tax losses.

Possible elimination or reduction of valuation discounts for family-owned businesses — As reported in an earlier newsletter, the U.S. Treasury has proposed regulations which, if finalized, will have the effect of increasing valuations of noncontrolling interests in family-owned businesses and investment entities for gift, estate, and generation-skipping tax purposes. The proposals are attracting much criticism. A hearing on the proposals is scheduled for December 1. Subsequent courses of action include at least the following:

- The regulations being finalized as proposed
- The regulations being finalized with modifications
- Withdrawal of the proposals followed by further study

Once finalized, the regulations would become law after 30 days. If you are interested in transferring an interest in a family-owned entity, you may want to consider conducting such transactions before the end of the year.

If you have any questions, contact your Dean Dorton advisor or Matt Smith at msmith@deandorton.com.