Post-election Year-end Tax Planning Letter

To Our Clients and Friends:

Now that the 2016 presidential election is over, it's highly likely that the tax law will receive a dramatic makeover. Although it's tough to predict what tax reform will look like next year, it's clear that President-elect Trump and the Republican-controlled Congress want to lower taxes. Now seems like the perfect time to explore tax planning strategies that align well with the new administration.

Summary of Trump's Tax Proposal

At the center of Trump's tax proposal is the creation of three individual tax brackets—with 12%, 25%, and 33% rates. This would lower the top individual tax rate from 39.6% to 33%. In addition, Trump would like to get rid of personal exemptions, the Alternative Minimum Tax (AMT), and the 3.8% Net Investment Income Tax (NIIT). On the flip side, Trump has proposed to increase the maximum standard deduction from $12,600 (married filing jointly) to $30,000. However, both Trump and the House GOP Tax Reform Task Force would limit the use of itemized deductions.

From a business standpoint, Trump's proposal cuts the top corporate tax rate from 35% to 15%. More importantly, Trump would like to limit the tax rate on income from pass-through businesses and sole proprietorships to 15%. That means that owners of S corporations, partnerships, and sole proprietorships would pay significantly lower taxes on business income (from 39.6% to 15% in some instances). In addition, Trump would get rid of depreciation deductions, but allow businesses to deduct the cost of asset acquisitions. Most other business deductions would be eliminated.

Tax Planning Opportunities

Given that lowering taxes is toward the top of Trump's list, there may be opportunities to accelerate deductions in 2016 and defer income until 2017. Of course, these suggestions are based on what *could* happen. There is always uncertainty with the future of tax policy. Therefore, you can call us to sort through the potential risks of any of these strategies.

Accelerate Itemized Deductions in 2016. If you currently take advantage of itemized deductions, you may want to accelerate next year's deductions into this year. This is because Trump's plan would make it hard for many taxpayers to take these deductions. Consider—

- Increasing charitable contributions before year end.
- Pursuing elective medical procedures if you think total medical expenses will exceed 10% of your adjusted gross income.
- Paying property taxes and/or state income taxes early. But, watch out for the AMT, as these taxes are not deductible for AMT purposes.

Defer Income until 2017. There are various ways to defer income until the following tax year. Here are a few ideas:

- Employees could pursue deferred compensation arrangements at work. Also, if bonuses are not yet due and payable, employees could request that bonuses be paid early next year.
- Employees could increase contributions to their 401(k) or other pre-tax retirement accounts in 2016.

- Taxpayers turning 70½ in 2016 could defer first year Required Minimum Distributions (RMDs) from an IRA or 401(k) plan until 2017. Although these taxpayers would be taxed on a double distribution in 2017, this may be beneficial if tax rates are lower.

- Taxpayers seeking to convert a traditional IRA into a Roth IRA could wait until 2017 to take advantage of lower tax rates.

- Those with substantial investment income could wait until 2017 to sell their investments. If Trump is successful in repealing the 3.8% NIIT, investors could save a lot of money.

- Business owners could wait to sell their businesses in 2017 or structure the deal as an installment sale.

Opportunities for Business Owners. Trump's plan also presents unique opportunities for business owners. Given that Trump's plan would tax business income, including that of a flow-through entity and sole proprietorship, at 15%, cash basis business owners could wait until next year to bill customers or accelerate payment of certain expenses, such as office supplies and repairs and maintenance, to 2016. Business owners may also want to purchase new and used equipment or software before year-end. Up to $500,000 of these costs can potentially be expensed this year as long as total purchases don't exceed $2,010,000. However, limits apply to the amount that can be deducted for most vehicles. Also, you cannot claim a Section 179 write-off that would create or increase an overall business tax loss.

Conclusion

Through careful planning, it's possible you can take advantage of Trump's tax reform plan. However, the items discussed in this letter are merely ideas at this point—we don't know if or when they'll become law. We'd be glad to set up a meeting with you to discuss the best way to plan for the changes that will most likely come. As always, please don't hesitate to call us with questions or for additional strategies on reducing your tax bill.

Very truly yours,

Gosling & Company, P.C.