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Dear Client:

2016 Year-end Tax Planning for Individuals

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. Factors that compound challenge this year include political and economic uncertainly, and the failure of Congress to act on a number of important tax breaks that will expire at the end of 2016. With our new President Trump in 2017 there are bound to be changes to the tax law, but what those changes will be, remain a mystery and we will have to wait and see what happens. .

Year-end has also become a time when there is an increasing need to take a careful look at what has 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. 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.

Investments

Taxpayers holding investments toward the end of the year, whether in the form of securities, real estate, collectibles, or other assets, often have an opportunity to reduce their overall tax bill by some strategic buying and selling (or like-kind exchanging). Balancing the existing tax rates within those considerations is part of that challenge: the ordinary income tax rate, the capital gain rate, the net investment income tax rate, and the alternative minimum tax (AMT), all play a role.

The tax rates on qualified capital gains (net long-term gains) and qualified dividends range from zero to 20 percent, depending upon the individual's income tax bracket. Below are the income tax brackets and capital gains rates:

Income Tax Bracket	Capital Gains Rate
39.6 percent	20 percent
35 percent	15 percent
33 percent	15 percent
28 percent	15 percent
25 percent	15 percent
15 percent	0 percent
10 percent	0 percent

PATH Act

Just before recessing for the holidays last year, the House and the Senate passed the Protecting Americans from Tax Hikes Act of 2015 (PATH Act). President Obama signed the Act and the Path Act became law. The PATH Act does considerably more than the typical tax extenders legislation seen in prior years. It makes permanent over 20 key provisions, including many affecting individual taxpayers. It also extends and enhances other provisions. Here's a list of the major changes made by the PATH Act for individuals:

- Permanent American Opportunity Tax Credit. Educational institutions are required to only report amounts paid for education, not the amounts billed. An individual must possess a valid Form 1098T to claim the AOTC.
- Code Sec. 529 Plans. Under the PATH Act, the purchase of computer equipment and technology with a distribution from a Code Sec. 529 plan is permanently considered a qualified expense.
- Permanent child tax credit – The Path Act makes permanent the reduced earned income threshold amount to qualify for the child tax credit. This provision had been scheduled to expire after 2017. Under the PATH Act, the child tax credit, available up to $1,000 for qualifying dependents under age 17, may be refundable to the extent of 15 percent of the taxpayer's earned income in excess of $3,000.
- Permanent teachers' $250 "classroom expense deduction". In addition, the PATH Act includes "professional development expenses" within the scope of the deduction. Professional development expenses under the PATH Act include courses related to the curriculum in which the educator provides instruction.
- Permanent transit benefits parity. The PATH Act extends parity among transit benefits. These include van pool benefits, transit passes and qualified parking. For 2016 the inflation adjusted monthly exclusion amount will be $255.
- 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 for individuals 70 ½ and older.
- Permanent 100 percent gain exclusion on qualified small business stock.
- Permanent conservation contributions benefits.
- Five-year solar energy property.
- Nonbusiness energy property credit through 2016. Code Sec. 25C credits include credits for the installation of insulation, energy efficient exterior windows and energy efficient heating and air condition systems. The PATH Act allows a credit of up to 10 percent of qualifying expenses, capped at $500.
- Fuel cell motor vehicle credit through 2016.
- Mortgage insurance premium deduction through 2016. This measure treats mortgage insurance premiums as deductible interest that is qualified residence interest subject to adjusted gross income phase-out.
- Qualified tuition and fees above-the-line deduction through 2016 for post-secondary education.
- Mortgage Debt Exclusion. The PATH Act excludes from income the cancellation of mortgage debt on a principal residence of up to $2 million through 2016. Without an extension, debt that is forgiven through a foreclosure, short sale or loan modification could be treated as taxable income if exclusion, such as insolvency, is not available after 2016.

Life Events

Life events such as marriage, birth or adoption of a child, a new job or the loss of a job, and retirement, all impact year-end tax planning. A change in filing status will affect tax liability. The possibility of significant changes and/or significant or unusual items of income or loss should be part of a year-end tax strategy. Additionally, taxpayers need to take a look into the future, into 2017, and predict, if possible, any events that could trigger significant income, losses or deductions.

Retirement Strategies

Taxpayers may want to take a look at a number of different provisions in anticipation of retirement, at the point of retirement, or after retirement. Many of these provisions have opportunities and deadlines associated with the concept of taxable year. Among others, these include contributions to employer plans, strategic use of IRAs and "required minimum distributions," and timing Roth IRA conversions and reconversions to maximize your retirement nest egg.

If you are interested in establishing a Keogh plan for your business, it must be set up by December 31st, even if you delay making your contribution until later. Both SEPs and IRAs can be established after the end of the year. The deadline for establishing an IRA or a SEP is the same as the contribution deadline, April 15th.

Contributions to a defined benefit plan, whether a profit sharing plan or money purchase pension plan, may be made up to 20% of net self-employment income, up to a maximum of $53,000 in 2016. Contributions to a defined benefit plan cannot exceed the smallest of 100% of the participant's average compensation for his or her highest 3 consecutive calendar years or $210,000. An actuary would determine the amount. You can also set up a 401K plan. For 2016, an annual contribution of up to $18,000 in regular 401(k) contributions either pre-tax or Roth 401(k), contributions can be made, plus an additional $6,000 in catch-up contributions for participants age 50 or older by the end of the year. The IRA contribution for 2016 is $5,500 and an additional catch up contribution of $1,000 for people over the age of 50 years old. Many people cannot contribute to a deductible IRA due to income limitations.

IRA Rollover

In addition, there are now new self-certification procedures for those individuals who missed the 60-day rollover deadline. The IRS has provided a new self-certification procedure designed to help recipients of retirement plan distributions who, due to one or more specified reasons, inadvertently missed the 60-day time limit for properly rolling these amounts into another IRA (or other eligible retirement plan). The new self-certification procedure allows these taxpayers to claim eligibility for a waiver of the 60-day rollover requirement that can be relied upon by a plan administrator or IRA trustee, in accepting and reporting receipt of the rollover contribution. The new procedure permits individuals to get rollover relief without having to follow a cumbersome private letter ruling request procedure.

Affordable Care Act Compliance

President Elect, Donald Trump, has campaigned that he plans on repealing the Affordable Care Act. There are many questions about the continuing vitality of the Affordable Care Act. Whatever its future, however, individuals must be prepared for the changes which have occurred in 2016. The law will have a greater impact in 2016 than in prior years.

Status of the Affordable Care Act

Major insurance companies have announced significant decreases in their participation in many of the state and federal health exchanges created under the act. As a result coverage under the exchange policies ends up being more expensive than anticipated for those remaining in the plans.

All individuals must have minimum essential health coverage. Those individuals without health insurance coverage will be subject to a "shared responsibility payment" which will be computed on the individual's income tax return. The penalty amounts have increased for 2016 to the higher of: $695 per adult, and $347.50 per dependent child, subject to a maximum of $2,085 per family; or 2.5% of the amount that the annual household income exceeds the income tax filing threshold for the taxpayer.

The penalty will be capped at the cost of the national average premium for a bronze level health plan available through the Marketplace in 2016.

Medical Expense Deduction

Taxpayers who itemized deductions may claim a deduction for qualified unreimbursed medical expenses to the extent those expenses exceed 10 percent of adjusted gross income, unless the taxpayer falls within an age-based exception. Taxpayers, or their spouses, who are age 65 or older, before the close of the tax year, may apply the old 7.5 percent threshold for the 2016 tax year. However, starting in 2017 all taxpayers will only be able to claim medical expenses if they can itemize and if the medical expenses are in excess of 10 percent of their adjusted gross income. Taxpayers who are age 65 or older in 2016 may consider accelerating medical costs into 2016 if they want to take a medical deduction, and they must pay for the expense in 2016, as well.

Mortgage Interest Deduction

The IRS has agreed that residence interest limits are applied separately for unmarried 50% co-owners. The $1 million of acquisition debt and $100,000 of home equity debt are applied on a per-individual basis and not a per-residence basis for unmarried individuals. Thus, the IRS now agrees that unmarried co-owners are collectively limited to a deduction for interest paid on a maximum of $2.2 million, rather than $1.1 million, of acquisition and home equity debt.

Acceleration or Delay

Year-end tax planning, especially if done "at the eleventh hour," requires some understanding of the timing rules: when income becomes taxable and when it may be deferred; and, likewise, when a deduction or credit is realized and when it may be deferred into next year or beyond.

Income acceleration/deferral. Taxpayers using the cash method basis of accounting can defer or accelerate income using a variety of strategies. These may include:

- Selling appreciated assets.
- Receiving bonuses before January.
- Selling outstanding installment contracts.
- Redeeming U.S. Savings Bonds.
- Accelerating debt forgiveness income.
- Avoiding mandatory like-kind exchange treatment.

Deduction acceleration/deferral. A cash basis taxpayer generally deducts an expense in the year it is paid, although prepayment of an expense generally will not accelerate a deduction. There are exceptions, including those made in connection with paying your:

- January mortgage payment in December.
- Tuition prepayment.
- Estimated state taxes.

Installment Contracts

Income on a sale reported under the installment method is realized pro-rata over the years in which the installment payments are made. To accelerate income realization, the taxpayer simply sells the remainder of the installment contract to a third party for a lump sum.

Selling Appreciated Assets

If a taxpayer has current losses, selling assets with, realized gains may make sense. For example, identical appreciated securities may be sold and repurchased. The gains from the sales will offset losses on other assets sold. The wash sale rules do not apply to gains.

US Savings Bonds

For cash-basis taxpayers, interest on series E, EE and I bonds, is generally taxed at the earliest of disposition, redemption, or final maturity of the bond. However, the taxpayers can elect to report the interest as it accrues. This would accelerate income into the current tax year.

Same Sex Marriages

Final regulations were issued in September to explain that marriage for federal tax purposes encompasses opposite-sex marriage and same-sex marriage. The final regulations generally track proposed regulations issued after the Supreme Court's decision on same-sex marriage in Obergefell. In Obergefell, the Supreme Court held that the Fourteenth Amendment requires a state to license a marriage between two people of the same sex. In addition, states must recognize a marriage between two people of the same sex when their marriage was lawfully licensed and performed out-of-state. The IRS followed up in 2016 with final regulations (TD 9785).

Social Security Wage Base

The maximum earnings subject to the Social Security tax in 2017 increased from $118,500 in 2016, to $127,200 in 2017. There is no limitation on the amount of earnings subject to the Medicare tax.

Gift/Estate Tax

In 2016, each individual can transfer up to $5,450,000 during their lifetime without incurring a gift tax for federal tax purposes. This amount increases each year, as it is indexed for inflation. Upon death, each individual has the same exemption amount available, less what he or she used of the gift tax exemption during his or her lifetime.

The annual gift tax exclusion for 2016 remains at $14,000 per person, per calendar year.

On April 1st, 2016, the amount of property that can pass free of New York estate tax was increased to $4,187,500. In 2019 when the law is completely phased in, the exemption amount will be equal to the federal exemption, as indexed for inflation. Estates valued in excess of the federal exemption will continue to pay New York estate taxes.

Gifting Techniques

Grantor Retained Annuity Trusts (GRATs) can be set up. GRATs allow a donor to transfer assets with high appreciation potential out of their estates, provided certain conditions are met. The donor will fund the GRAT with highly appreciating assets and must receive an annuity payment form the trust each year. If the assets in the trust appreciate in excess of the interest rates prescribed by the IRS that excess amount gets passed onto their heirs at the end of the trust term.

In addition, a taxpayer can sell assets to an intentionally defective grantor trust in return for an installment note. The transaction allows the grantor to freeze the value of the estate at the value of the promissory note, without income and gift tax consequences. If the assets in the trust appreciate in value, beyond the interest rates prescribed by the IRS, the excess is transferred free of transfer tax to the remainder beneficiaries of the trust (i.e. children and grandchildren).

Effective for tax returns filed after July 31, 2015, the Personal Representative must provide basis information to beneficiaries within 30 days after the earlier of the extended due date of the Estate tax return, or the date of filing. This new law requires that heirs utilize the same basis in property as used in valuation on a federal estate tax return.

In August 2016, the IRS issued proposed regulations that would close family business estate/gift tax loopholes. The proposed regulations would value transfers of interests in a closely held business without considering certain restrictions placed on those interests. These rules may significantly reduce "lack of control and marketability" discounts for gift, estate and generation skipping transfers. Final regulations will not be issued until December 2016 and possibly not until 2017. It is a good possibility that substantial reductions in the types of valuation discounts, which donors have become accustomed to, will not be available in the future, so 2016 may present the last opportunity to take advantage of the maximum benefits of valuation discounts.

2016 Year-end Tax Planning for Businesses

As businesses approach year-end, each has a unique opportunity to save additional taxes through taking a variety of strategic steps. Businesses seeking to maximize tax benefits through 2016 year-end tax planning may want to consider several general strategies, such as use of traditional timing techniques for income and deductions, and the role of the tax extenders (those made permanent and those expiring at the end of 2016), as well as strategies targeted specifically to their particular business.

As in past years, planning is uncertain because of the expiration of at least some popular but temporary tax breaks. Also added to the mix is the Affordable Care Act (ACA) and whatever changes to 2017 the new Congress and Administration may make to the Tax Code.

PATH Act Extenders

The Protecting Americans from Tax Hikes Act of 2015 (PATH Act), enacted at the end of 2015, made permanent many business-related provisions that had been up for renewal, including the 100 percent gain exclusion on qualified small business stock; the reduced, five-year recognition period for S corporation built-in gains tax; 15-year straight-line cost recovery for qualified leasehold improvements, restaurant property and retail improvements; charitable deductions for the contribution of food inventory and others. Perhaps most significant are the extended research credit and Code Sec. 179 expensing deduction.

The Code Sec. 179 expensing limit for 2016 is set at $500,000 with a $2,100,000 over-all investment limit before phase out. Both amounts are indexed for inflation. The PATH Act also permanently allows for the expensing of off-the-shelf computer software.

As a reminder Code Sec. 179 is available for both new and second-hand/used property that is purchased and placed in service by a taxpayer. Bonus depreciation is available only for new (first-time-use) property. For tax years beginning after December 31, 2015, expensing of qualified real property is made permanent without a carryover limitation and the $250,000 expensing limitation with respect to qualifying real property is eliminated. In addition, for tax years beginning after December 31, 2015 air conditioning and heating units are eligible for expensing.

PATH Act Five Year Extenders

The PATH Act extended several business-related provisions available for five-years, under the expectation that general tax reform will consider a more permanent fate. Among these provisions, bonus depreciation and the Work Opportunity Credit have widespread applicability. Notably, in addition to extending bonus depreciation, a number of modifications have been made that:

- Reduce the bonus rate from 50 percent to 40 percent for property placed in service in 2018 and to 30 percent for property placed in service in 2019 (for 2016 and again for 2017 it remains at 50 percent).
- Replaces the bonus allowance for qualified leasehold improvement property with a bonus allowance for additions and improvements to the interior of any nonresidential real property, effective for property placed in service after 2015.
- Reduces the $8,000 bump-up in the first year luxury car depreciation cap for passenger automobiles on which bonus depreciation is claimed to $6,400 for passenger automobiles placed in service in 2018 and $4,800 for passenger automobiles placed in service in 2019, and only if the taxpayer does not generally elect out of bonus depreciation.

Revised Repair Regulations

The IRS issued final tangible property regulations (aka, the "repair regs") over three years ago. They continue to control the accounting for costs to acquire, repair and improve tangible property. These "repair regs" impact virtually all asset-based businesses and have reverberated into 2016, with additional "clean-up" expected in 2017.

For 2016 year-end planning, there is a new de minimis expensing safe harbor and a new remodel-refresh safe harbor. The de minimis safe harbor allows taxpayers to annually elect to deduct the cost of materials and supplies and property acquired subject to a per-item dollar limit. Starting in 2016 the de minimis safe harbor limit increased from $500 to $2,500 for taxpayers without an applicable financial statement. You should have a written policy in effect at the beginning of the year stating that you will expense items that cost $2,500 or less, instead of capitalizing these items.

Remodel -refresh: The IRS supplemented the tangible property regs with a safe harbor that allows a taxpayer operating a retail establishment or a restaurant to change to a method of accounting that allows the taxpayer to treat 25 percent of qualified remodel-refresh costs as capital expenditures under Code Sec. 263 and 75 percent of such costs as currently deductible repair and maintenance expenses. Taxpayers must obtain automatic consent to change to the safe harbor method of accounting. Certain retailers, however, may not use the remodel-refresh safe harbor. These excluded retailers include: automobile dealers, other motor vehicle dealers, gas stations, manufactured home dealers, and nonstore retailers.

Partnership Audit Rules

The Bipartisan Budget Act of 2015 (Budget Act) repealed the TEFRA unified partnership audit rules and replaced them with streamlined procedures. The Budget Act delayed the effective date of the new audit rules for returns filed for partnership tax years beginning after 2017. However, subject to certain exceptions, partnerships may choose to apply the new regime immediately to any partnership tax year beginning after November 2, 2015.

Generally, the new rules require adjustment of all items of income, gain, loss, deduction, or credit at the partnership level, with the partnership liable for any resulting underpayment of tax. Under the rules, a partnership's net adjustments for the reviewed year (the imputed underpayment) will be taxed at the highest individual or corporate tax rate. The IRS is authorized to promulgate rules adjusting or allocating imputed underpayments to take into account several factors including the character of the income being adjusted. Additional taxes, as well as penalties and interest, arising from an audit are payable by the partnership. However, the partnership may elect to pass through to its partners their respective shares of the adjustment, with the partners paying tax, penalties, and interest on their adjusted distributive shares.

Partnerships generally may elect out of the new rules if their only partners are individuals, estates of a deceased partner, or S or C corporations (or foreign entities treated as a C corporation). In addition, they cannot have more than 100 Schedule K-1s and they have to follow certain requirements as to the time and manner of making the election.

Business Use of Vehicles

Several year-end strategies for both business expense deductions for vehicles and the fringe-benefit use of vehicles by employees involve an awareness of certain rates and dollar caps that change annually. 2016 changes to the standard mileage rates and vehicle depreciation limits are critical to these strategies. The standard business mileage allowance rate for 2016 is 54 cents per mile (down from 57.5 cents per mile for 2015).

Affordable Care Act

Despite several delays and legislative tweaks, the basic structure of the ACA for businesses, both large and small, generally remains intact. If an employer is an applicable large employer (ALE), this triggers employer shared responsibility provisions and the employer information reporting provisions. Small businesses, too, are not unaffected by the ACA and should take the ACA into account in year-end planning. Some incentives under the ACA, including health reimbursement arrangements and small business health care tax credits, can help maximize tax savings for small businesses. Information reporting under the ACA continues to challenge all businesses.

An Applicable Large Employer (ALE) is defined as one who has at least 50 full-time-equivalent employees, and they must offer affordable health coverage to full-timers and their dependents or pay a fine. For 2015 the mandate applied to firms with 100 or more full-time-equivalent workers

Applicable large employers are potentially subject to two penalties under the ACA if:

- It does not provide minimum essential coverage to its fulltime employees and if at least one full-time employee purchases health insurance on an Exchange and the full-time employee receives a premium tax credit which will be referred to as a "No Coverage Penalty."
- If the ALE offers minimum essential coverage to its full-time employees but the coverage does not provide "minimum value" or is not "affordable" and at least one full-time employee purchases health insurance on an Exchange and the full time employee receives a premium tax credit, then there will be what is called a "Bad Coverage Penalty."

There also are thresholds which have to be taken into consideration before the penalties are calculated.

2015 was the first time Applicable Large Employers (including those with between 50 and 99 employees) had to file information returns to the IRS and to covered employees by filing Forms 1094-C and 1095-C, and in certain situations, Forms 1094-B. and 1095-B. These forms will again be required to be prepared and must be filed by their due dates, early in 2017.

Per-Diem Rates

An employer may pay a per-diem amount to an employee on business travel status instead of reimbursing actual substantiated expenses for away-from-home lodging, meals and incidental expenses. If the rate paid doesn't exceed IRS approved maximums, and the employee provides simplified substantiation, the reimbursement isn't subject to income or payroll tax withholding and isn't reported on the employee's Form W-2. In general, the IRS approved per-diem maximum is the GSA per-diem rate paid by the federal government to its workers who travel. This rate varies from locality to locality. Instead of using actual per-diems, employers may use a simplified "high-low" per-diem, under which there is one uniform per-diem rate for all "high-cost" areas within the continental US and another per-diem rate for all other areas within the continental US. The IRS has released the "high-low" simplified per-diem rates for post September 30, 2016 travel. The high-cost area per-diem increased $7 to $282 (consisting of $214 for lodging and $68 for M&IE) and the low-cost area per-diem increased from $4 to $189 (consisting of $132 for lodging and $57 for M&IE).

Revised Deadlines

The due dates for many returns were modified by the Surface Transportation and Veterans Care Choice Improvement Act of 2015, and known as the Highway Funding Bill. The new due dates will go into effect for the 2016 tax and calendar years (2017 filing season), with the exception of the changes for C corporations with fiscal years ending on June 30th. The changes are summarized in the chart below.

Return Type	Due Dates Under Prior Law	New Law: Original and Extended Due Date		Comments
Partnership (calendar year) Form 1065	April 15 Sept. 15	March 15 Sept. 15		Under the new law, for fiscal year partnerships, returns will be due on the 15th day of the 3rd month after the year-end. A six-month extension is allowed from that date.
S Corporation (calendar year) Form 1120S	March 15 Sept. 15	March 15 Sept. 15		No change
Trust and Estate Form 1041	April 15 Sept. 15	April 15 Sept. 30		
C Corporation (calendar year) Form 1120	March 15 Sept.15	Before Jan. 1, 2026 April 15 Sept. 15	After Dec. 31, 2025 April 15 Oct. 15	Starting with 2016 tax returns, all other C corps besides Dec. 31 and June 30 year-ends (including those with other fiscal year-ends) will be due on the 15th of the 4th month after the year-end. A six-month extension is allowed from that date
C Corporation June 30 Fiscal Year Form 1120	Sept. 15 March 15	Before Jan. 1, 2026 Sept. 15 April 15	After Dec. 31, 2025 Oct. 15 April 15	Special rule for C Corporations with fiscal years ending on June 30 — the new due date rules will go into effect for returns with taxable years beginning after Dec. 31, 2025 (2027 filing season
C Corporation Fiscal Year-end (other than Dec. 31 or June 30)	15th day of 3rd month after year-end 15th day of 9th month after year-end	15th day of 4th month after year-end 15th day of 10th month after year-end		
Individual Form 1040	April 15 Oct. 15	April 15 Oct. 15		No change
Exempt Organizations Forms 990	May 15 Aug. 15 Nov. 15	May 15 Nov. 15		New extension will be a single, automatic 6-month extension eliminating the need to process the current first 90-day extension
Employee Benefit Plans Form 5500	July 31 Oct.15	July 31 Oct. 15		No change. (Federal law enacted in December 2015 repealed a previously enacted extension.)
Fin CEN Report 114	June 30	April 15 Oct. 15		Foreign Bank and Financial Accounts Report (FBAR)
Information Returns (i.e., W-2 and 1099s	To IRS/SSA — Feb. 28 and March 31 if filed electronically	Forms W-2 and certain 1099-MISC due to IRS/SSA Jan. 31 All other Forms 1099 due Feb. 28; March 31 if filed electronically		Form W-2 and most Forms 1099-MISC due to IRS/SSA Jan. 31 (same date they are due to the taxpayer)

New Overtime Rules

On December 1st, 2016 the final Overtime Rule will become effective. This new regulation is estimated to impact more than 4.2 million workers and consequently their employers. Currently, salaried employees with some managerial duties who earn between $23,600 and $47,476 are exempt from earning overtime pay. However, upon implementation of the Final Overtime Rule, employees who receive compensation of $47,476 annually, or less, will be reclassed as "non-exempt". After December 1st, 2016 these employees must be compensated for time worked over 40 hours per week. It is important to note that the Final Overtime Rule does not include any changes to the duties test or defining employees under white collar exemption, which also affects the determination of who is exempt from overtime. These rules remain unchanged from prior years. To qualify for exemption, a white collar employee generally must:

- Be salaried, meaning that they are paid a predetermined and fixed salary that is not subject to reduction because of variations in the quality or quantity of work performed.
- Be paid more than a specified weekly salary level, which is $913 per week (the equivalent of $47,476 annually for a full-year worker.
- Primarily perform executive, administrative or professional duties, as defined in the Department's regulations (the duties test).

Certain employees are not subject to either the salary basis or salary level tests (for example, doctors, teachers and lawyers). The Department's regulations also provide an exemption for certain highly compensated employees who earn above a higher total annual compensation level ($134,004 under this Final Overtime Rule) and satisfy a minimal duties test.

It is suggested that you use this time to review your records and identify those employees who will be affected by the change. You should review job descriptions for employees and update these descriptions, if needed. Some possible planning options would be to increase the salary of an employee who is close to the new threshold, so as to maintain their exemption. You can also evaluate and reassign work schedules to eliminate or avoid overtime for those employees who would earn overtime pay. Of course, reducing hours and work schedules needs also to make sense for your business operations, in addition to the bottom line.

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 upon your long-term tax situation remains to be developed. The future now is more difficult to read than in prior years. Nevertheless, in looking towards the future, you should not lose sight of the short term tax dollars to be saved now through 2016 year-end strategies.

We are attaching to this Year-end Tax Planning Letter some information regarding the current tax law and President-elect Trump's proposed tax plans. President-elect Donald Trump has proposed the largest tax cuts since President Ronald Reagan. If Trump sticks to his campaign promises, attached you will find some major things his administration wants to change, for both individuals and businesses. The attachments compare the current law to the proposed new 2017 tax law.

If Trump's proposed tax law changes are enacted, you might want to consider deferring income until 2017, but certain middle-class taxpayers will be paying a higher tax under Trump. These middle-class

taxpayers might want to accelerate capital gains into 2016 to take advantage of the potentially lower rates in 2016, but only if they are not subject to the net investment income tax. Another thing you might want to consider is making charitable contributions in 2016, before the cap on itemized deductions hits. This deduction would also offset higher income taxpayers.

Further, businesses might want to consider deferring the acquisition of business assets until 2017, to potentially take advantage of 100% expensing, but only if they cannot expense 100% of the costs of the assets that they purchased in 2016.

Please feel free to call us if you have any questions about how year-end tax planning might help you save taxes. Once 2016 is over, tax savings that are specific to 2016 may be gone forever.

Sincerely yours,

Ceasar & Smilow, LLP

Single Taxpayers

Ordinary Income Tax Rates	Current Law	Trump
$0-$10,350	0%	0%
$10,350-$15,000	10%	0%
$15,000-$19,625	10%	12%
$19,625-$48,000	15%	12%
$48,000-$52,500	25%	12%
$52,500-$101,500	25%	25%
$101,500-$127,500	28%	25%
$127,500-$200,500	28%	33%
$200,500-$423-700	33%	33%
$423,700-$425,400	35%	33%
Over $425,400	39.6%	33%

Married Filing Jointly

Ordinary Income Tax Rates	Current Law	Trump
$0-$20,700	0%	0%
$20,700-$30,000	10%	0%
$30,000-$39,250	10%	12%
$39,250-$96,000	15%	12%
$96,000-$105,000	25%	12%
$105,000-$172,600	25%	25%
$172,600-$252,150	28%	25%
$252,150-$255,000	33%	25%
$255,000-$433,750	33%	33%
$433,750-$487,650	35%	33%
Over $487,650	39.6%	33%

Single Taxpayers

Capital Gains Tax Rates	Current Law	Trump
$0-$10,350	0%	0%
$10,350-$15,000	0%	0%
$15,000-$19,625	0%	0%
$19,625-$48,000	0%	0%
$48,000-$52,500	15%	0%
$52,500-$101,500	15%	15%
$101,500-$127,500	15%	15%
$127,500-$200,500	15%	20%
$200,500-$423,700	15%	20%
$423,700-$425,400	15%	20%
Over $425,400	20%	20%

Married Filing Jointly

Capital Gains Tax Rates	Current Law	Trump
$0-$20,700	0%	0%
$20,700-$30,000	0%	0%
$30,000-$39,250	0%	0%
$39,250-$96,000	0%	0%
$96,000-$105,000	15%	0%
$105,000-$172,600	15%	15%
$172,600-$252,150	15%	15%
$252,150-$255,000	15%	15%
$255,000-$433,750	15%	20%
$433,750-$487,650	15%	20%
Over $487,650	20%	20%

How Do They Compare?

Issue	Current Law	Trump
Net Investment Income	Tacks an additional 3.8% surtax on interest, dividends, rents, royalties, passive business income	Eliminates NII and the rest of the Affordable Care Act

How Do They Compare?

Issue	Current Law	Trump
Alternative Minimum Tax	Parallel tax calculation	Repeals AMT

How Do They Compare?

Issue	Current Law	Trump
Itemized Deductions	Pease Limitation: lose 3% of itemized as AGI exceeds $300,000 if MFJ and $250,000 if single	Limited to $200,000 if MFJ; $100,000 if single

How Do They Compare?

Issue	Current Law	Trump
Standard Deductions/Personal Exemption	$12,600 MFJ; $6,300 single; personal exemption: $4,050	Standard: $30,000 MFJ, $15,000 single; eliminate personal exemptions

- **Once a family exceeds four member, they are better off under current law.**
- **27 million more taxpayers will take the standard rather than itemize; simplifying return filings.**
- **According to a recent NYU study, the combination of the 12% bottom rate (in place of 10%), the loss of the head of household filing rates, and lost personal exemptions will raise taxes on 8M low-income taxpayers.**

How Do They Compare?

Issue	Current Law	Trump
Child Benefits	$1,000 child tax credit; EITC	Keeps the child care credit, keeps the child tax credit, allows a deduction from AGI for child care expenses not counted in the child care credit (if income < $500,000 married, $250,000 single).

How Do They Compare?

Issue	Current Law	Trump
Estate Tax Rate	40%	0%
Estate Tax Exemption	$5.45M	N/A

Note: Trump would tax all appreciation in a decedent's assets at capital gains rates, subject to a $10M exception. It appears this would take effect as a carryover basis to heirs, rather than an immediate tax at death.

How Do They Compare?

Issue	Current Law	Trump
International Tax: repatriation	$2.5T held overseas that has yet to be taxed in U.S.	Deemed repatriation of $2.5T of overseas profits at one-time 10% tax, payable over 10 years.
International Tax: new system	Deferral system; no US tax on foreign income of foreign affiliates until repatriated.	Worldwide: tax foreign affiliates on income immediately

Tallying the Costs

Issue	10 year cost
Corporate Tax Rate	$2.3T
Individual Tax Rates	$1.5T
15% Business Tax Rate	$900B
100% Expensing	$700B

How Do They Compare?

Issue	Current Law	Trump
Corporate tax rate	35%	15%
Corporate deductions	Plentiful	Can elect to immediately expense all asset acquisition costs; if elect to do so, cannot deduct interest expense
Rate on flow-through business income	Presumably ordinary rates	Can elect max of 15%; Distributions from "large" pass throughs would be taxed as dividends.