



December 1, 2017

2017 YEAR-END TAX PLANNING - INDIVIDUALS

Year-end 2017 presents a unique set of challenges for all of us. At the top of the list are the uncertainties created by the possibilities within proposed tax reform legislation. Tax reform continues to be a hot topic. While President Trump, the Senate and the House of Representatives have set forth their proposed tax law changes, they all cannot agree to exactly what tax laws will change. This includes uncertainty regarding rate cuts, certain deductions, and much more. Effective strategies in response to any of these "tax reform items" involves close monitoring of the proposed tax bills as they move through negotiations within the various Congressional tax committees and Trump administration officials. Major tax reform will probably happen in 2018.

For now, there are some changes that will take place in 2017 as follows:

Standard Mileage Rate - The 2017 standard mileage rate for business driving falls to 53 ½ cents a mile. For medical purposes, individuals can deduct 17 cents a mile for travel. For charitable driving, an individual can deduct 14 cents per mile.

Capital Gains - The 20% top rate on qualifying dividends and long-term gains start at higher amounts for 2017, as follows: Singles with taxable income above \$418,400, head of households with taxable income above \$444,550 and joint files with taxable income above \$470,700. The 3.8% Medicare surtax boosts the rate to 23.8%. The regular 15% maximum rate applies for filers with incomes below these amounts, except that filers in the 10% or 15% income tax bracket still get the special 0% rate.

Social Security Wage Base - The social security wage base increased to \$127,200, up \$8,700 from the 2016 amount. The Social Security tax rate on employers and employees remains at 6.2%. The employer's share of Medicare tax stays at 1.45% of an employee's pay. The employee's share is 1.45%, too, but the employee also has to pay the .9% Medicare surtax on wages that exceed \$200,000 for singles and \$250,000 for married couples. Self-employed individuals are also subject to the surtax.

Social Security Recipients - Individuals who are collecting social security will see a 2% cost of living adjustment in 2018.

Long-term Care - The limits on deducting long-term-care premiums are higher in 2017. Taxpayers who are 71 or older can write off as much as \$5,110 per person. Filers age 61-70 can write off \$4,090 and those who are 51-60 can deduct up to \$1,530. Individuals age 41 to 50 can take \$770, and people age 40 and younger \$410.

Schedule A - Medical - The threshold for deducting medical expense on Schedule A jumps to 10% of AGI for taxpayers who are age 65 or older, starting with 2017 returns filed in 2018. This higher floor, set as part of Obamacare, has applied to younger filers since 2013.

Affordable Care Act Mandates - Each individual must still have minimum essential healthcare coverage or qualify for an exemption, or pay a penalty, if they do not have health insurance coverage. To date, this health care coverage mandate has not been repealed.

Passport Revocation - Passports will be revoked, or not issued, if a taxpayer has not set up an installment agreement and owes to the IRS \$50,000 or more in tax, penalty, interest, etc., for which a notice of lien or levy has been filed. Implementation of this new law is expected to happen very shortly.

Estate and Gift Tax Exemption - The estate and gift tax exemption for 2017 rises to \$5,490,000. The rate remains 40%. The gift tax exclusion stays the same, \$14,000, per donee.

IRA Rollovers - A rollover is a tax-free distribution from one retirement plan that is then contributed to another retirement plan. The contribution to the second retirement plan is called a rollover contribution. As a general rule, a taxpayer has until the 60th day following a distribution to make a rollover contribution. Distributions that are not rolled over in 60 days are taxable in the year distributed, even if the 60 day period expires in the following year. The distribution also could be subject to penalties, if the taxpayer is under the age of 59 1/2.

The IRS has allowed in 2016, a new self-certification for missed rollover deadlines. A taxpayer who missed the 60 days rollover deadline makes a self-certification by submitting a letter to the IRA trustee stating the contribution qualifies as a rollover. The letter is not sent to the IRS, but must be kept by the financial institution and the taxpayer. The taxpayer would only qualify if the inability to complete the rollover within the 60 day period, was due to one or more of the following reasons:

- An error was committed by the financial institution receiving the contribution or making the distribution to which the rollover contribution relates.
- The distribution check was misplaced and never cashed.
- The distribution was deposited into and remained in an account that the taxpayer mistakenly thought was an eligible retirement plan.
- The taxpayer's principal residence was severely damaged.
- A member of the taxpayer's family died.
- The taxpayer or a member of the taxpayer's family was seriously ill.
- The taxpayer was incarcerated.
- Restrictions were imposed by a foreign country.
- A postal error occurred.
- The distribution was made on account of an IRS levy and the proceeds of the levy have been returned to the taxpayer.
- The party making the distribution delayed providing information that the receiving plan required to complete the rollover despite taxpayer's reasonable efforts to obtain the information.

Retirement Plans: The dollar limits for retirement plans are:

Plan Types	2017 Limits
Defined contribution plans	\$ 54,000
Defined benefit plans	\$270,000
401(k), 403(b) and 457 plans:	
Under age 50	\$ 18,000

Age 50 and older	\$ 24,000
SIMPLE plans:	
Under age 50	\$ 12,500
Age 50 and older	\$ 15,500
IRA, traditional and Roth:	
Under age 50	\$ 5,500
Age 50 and older	\$ 6,500
IRA AGI Phase-Out (married)	\$ 99,000
IRA AGI Phase-Out (single/head of household)	\$ 62,000

Other Threshold	2017 Limits
SEP annual compensation limit	\$270,000
Key employee in a top-heavy plan	\$175,000
Highly compensated employee	\$120,000

Expiring Tax Breaks - On January 1, 2017 the following tax breaks expired:

- The exclusion of up to \$2,000,000 of forgiven debt on primary residences.
- The credit for installing energy-efficient windows and exterior doors in one's principal residence.
- The write-off of private mortgage insurance no longer exists.
- The Tuition and Fees Deduction, an above the line education deduction. The expiration of this deduction effectively increases the cost of college education for some taxpayers.

2017 YEAR-END TAX PLANNING - BUSINESSES

As year-end approaches, each business should consider the many opportunities that might be lost if year-end tax planning is not explored. A business may want to consider several general strategies, such as use of traditional timing techniques for delaying income recognition and accelerating deductions. A business should also consider customized strategies tailored to its particular situations.

For the 2017 tax year, taxpayers have relative clarity with respect to available credits and deductions. With the exception of a handful of industry specific tax credits and deductions that expired at the end of 2016, most temporary credits and deductions were permanently extended by the Protecting Americans from Tax Hikes Act of 2015 (PATH Act). A few others were extended for 5-years through 2019. Far less clear, however, is the possibility of the enactment of tax reform legislation by year's end. The final scope of such legislation, if enacted, remains unknown. At a minimum, tax reform legislation is expected to result in a reduction of corporate tax rates.

Some of the 2017 changes, are as follows:

W2S and 1099s - Employers are required to File W-2s with the federal government by January 31st. Previously the prior deadlines were February 28th for paper returns and March 31st for e-filed returns. The January 31st due date is also applicable to 1099s reporting nonemployee compensation.

Section 179 Expensing - The Section 179 deduction is permanent and indexed for inflation. \$510,000 of assets can be expensed in 2017, and this figure phases out dollar for dollar once over \$2,030,000 of assets are put into service during the year. Under Section 179, eligible taxpayers may elect to deduct as an expense, rather than depreciate, the cost of new or used qualified tangible personal property placed in service during the year.

Bonus Depreciation - The first-year bonus depreciation deduction remains at 50% for new qualified property acquired and placed in service through 2017. The rate is set to be reduced to 40% for 2018 and 30% for 2019. Under first-year bonus depreciation, eligible taxpayers are able to deduct as an expense, rather than depreciate, 50% of the cost of new qualified property placed in service during the year. Bonus depreciation expires after 2019.

Qualified Leasehold Improvement Property, Qualified Restaurant Property and Qualified Retail Improvement Property - All of this property is permanently classified as 15-year MACRS property being eligible for depreciation over 15 years, instead of 39 years. QLI property is defined as any improvement made under a lease to an interior portion of a building that is nonresidential real property, if the improvement was placed in service more than three years after the date the building was first placed in service.

Qualified Improvement Property – QIP is any improvement made to an interior portion of a building, which is nonresidential real property, if the improvement is placed in service after the date the building was first placed in service. Bonus depreciation can be taken on qualified improvement property, over a 39 year life.

De Minimis Safe Harbor Threshold - For most taxpayers, capital assets purchased for \$2,500 or less can be written off as an expense, instead of being capitalized. For taxpayers that have audited financial statements prepared, eligible taxpayers may deduct \$5,000 as an expense, rather than depreciate the cost of the qualified property acquired.

Research and Development Tax Credit - This tax credit is permanent and allows businesses engaging in certain research activities and with qualified research expenses, to receive a tax credit to offset their federal business tax liability, and in the case of a pass-through entity, to offset personal tax liability. Eligible small businesses or owners are also allowed to use the credit against alternative minimum tax liability, while qualified small businesses may elect to utilize the credit against FICA payroll taxes. This election is useful to a business with no income tax liability against which to claim the research credit. The business must have less than \$5 million of gross receipts in the election year and must not have had gross receipts in any year before the five-tax-year period that ends with the current taxable year.

This new option was available for the first time to any eligible small business for their 2016 tax year. However, those who already filed their 2016 returns still have time to choose this option. Under a special rule for tax-year 2016, a small business that failed to choose this option and still wish to do so, can still make the election by filing an amended return by December 31, 2017.

The Work Opportunity Tax Credit (WOTC) - This tax credit is in effect through 2019 and allows employers that hire individuals from certain targeted groups to receive a tax credit based on the employee's wages

and qualifications. This credit can offset both business tax liability, and in the case of a pass-through entity, personal tax liability.

Domestic Production Activities Deduction (DPAD) - This deduction generally allows businesses with income from the sale of certain products or services manufactured, produced, grown or extended primarily in the US to receive a deduction of 9% of the total net income from these activities. The deduction cannot exceed the lesser of income or 50% of W2 wages paid to employees engaged in domestic production.

Affordable Care Act - Employers with at least an average of 50 full time employees, or equivalents, must offer affordable minimum essential coverage to their employees. If at least one of its full time employees receives a premium tax credit, the employer may be subject to a penalty (employer shared responsibility payment). The maximum penalty is \$2,000 per year for every full-time employee in excess of 30 full-time employees.

Partnership Audits - For tax years beginning after December 31, 2017, there are new partnership audit rules. In general, under the new rules, partnerships will be responsible for paying any tax, penalties, or interest that arises from any adjustments resulting from an audit change of the partnership. All payments resulting from an audit will be made by the partnership, and partners will have no information or participation rights in respect to the audit. Given the simplified process from the IRS perspective, audits for partnerships are expected to increase. Each partnership must designate a person with sole authority to act on behalf of the partnership during an audit.

Certain partnerships that have 100 or fewer partners, and have only eligible partners, the entire taxable year, may elect out. The number of partners is determined by how many form K-1s the partnership has to issue, including the number of such forms their "S" corporation partners have to issue.

The partnership may elect "out" of the new centralized system audit rules, and have it and its partners governed by the present-law partnership audit rules. The annual election will be made with a timely-filed return of the partnership. However, the partnership can opt out only if all the partners are individuals, C corporations, foreign corporations, S corporations, or estates of deceased partners. Partnerships cannot elect out if they have partners that are trusts, single member LLCs (disregarded entities), partnerships, a nominee or other similar person that holds an interest on behalf of another person, or an estate of an individual, other than a deceased partner, as partners.

You might want to talk to your attorney about how your partnership agreement is written, to see if it has to be revised because of this new tax law change.

TAX OPPORTUNITIES TO BE TAKEN BEFORE YEAR END

Data gathering - Year-end planning should start with data collection and a review of prior year returns. This includes information on estimated tax installments and items that were unusual.

Life Events - The biggest variables for many taxpayers impacting their year-end tax planning surrounds life events such as marriage, divorce, birth or adoption of a child, a new job, or the loss of a job and retirement. These life events may, for instance, result in a change in filing status that will affect tax liability. The possibility of significant changes and/or significant or unusual items of income or loss

should also be part of a year-end tax strategy. Additionally, taxpayers need to take a look into the future and predict, if possible, any events that could trigger significant income, losses, or deductions.

Basis - Individuals owning pass-through entities should make sure that they have sufficient tax basis to deduct business losses at the individual level, and to make sure any distributions they have taken don't become taxable income to them.

Investments - Taxpayers holding investments, 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 towards the end of the year, as well as, exchanging appreciated assets for like-kind property, in order to defer gains. Balancing tax considerations with other factors is part of the challenge in dealing with investments, including the ordinary income tax rate, the net investment income tax rate, the capital gain rate, and the alternative minimum tax.

In addition, taxpayers should review their capital losses, net operating losses and charitable contribution carryforwards to determine if any of them are expiring in 2017 and to see if they can be used in 2017, before they expire.

Income Tax Rates - One of the most significant factors in tax planning for individuals is their tax bracket. The most direct control taxpayers have over their tax bracket rests in their ability to control the timing of income and deductible expenses. For example, taxpayers who expect to be in a lower tax bracket in 2018 should consider deferring income to 2018 and accelerating deductions into 2017. Cash basis taxpayers may consider deferring income to 2018, as long as the income is not actually received in 2017. They also may want to consider accelerating deductions by prepaying certain expenses before year-end.

Casualty Losses - In the wake of recent back-to-back hurricanes, taxpayer's with property damages from either Hurricanes Harvey, Irma or Maria, will need to determine how to properly account for the losses suffered. In general, casualty losses, including losses from disasters such as hurricanes, are deductible in the tax year in which the losses were sustained (i.e. disaster year). However, where losses are incurred in a federally declared disaster area, such as in the cases of Hurricanes Harvey, Irma and Maria, taxpayers may elect to deduct the casualty losses in the year immediately preceding the tax year of the disaster (2016 tax year). This is accomplished by amending the prior year's tax return.

Estate Tax and GIFT Tax Returns - As a reminder, when a taxpayer passes away, and if the taxpayer did not use the full \$5,490,000 exemption, a surviving spouse can use the unused portion for both gift and estate tax purposes, but not for GST purposes. It does not apply to state death tax exemptions. In order to preserve the unused estate tax exemption amount for the surviving spouse, an election must be made on the estate tax return for the deceased spouse. Therefore, an estate tax return has to be filed, even if the deceased's estate wasn't required to file a return.,

Tuition Planning - For the year 2017, many taxpayers will be eligible to take advantage of either the American Opportunity Tax Credit or the Lifetime Learning Credit, but both are set to expire at the end of 2017. However, due to certain income limitations, these credits may not be available to all individuals and may be phased out.

If a taxpayer has a child, or other dependent, that will be attending college, including taxpayer or their spouse, there are some ways to save for college. Section 529 plans are available to taxpayers. States can set up and maintain programs that allow a taxpayer to either prepay or contribute to an account

that is set aside to pay for a student's college expenses. Although the contributions to 529 plans are not tax deductible for federal purposes, the earnings grow tax-free, and there are no income limitations in contributing money to these plans. In addition, some states, allow a tax deduction for contributions made to their state's plan.

Another way to save for college is to establish a Coverdell Education Savings Account. Contributions to a Coverdell account are not tax deductible, but the earnings and distributions are tax free as long as they are used for qualified education expenses. Withdrawals can be used to pay for qualified elementary and secondary school expenses and must be disbursed before the beneficiary reaches 30 years old, or the funds can be transferred to another eligible family member younger than 30. The maximum contribution is \$2,000 a year. Any individual (including the designated beneficiary) can contribute to a Coverdell account if the individual's MAGI for the year is less than \$110,000. For individuals filing joint returns, that amount is \$220,000.

Savings Bonds - Interest earned on qualified US Savings Bonds issued after 1989 or Series I Bonds, might not have to be included in income, if the proceeds are used to pay for qualified education expenses for the taxpayer, the taxpayer's spouse or taxpayer's dependents. The bond must be issued either in the name of the taxpayer or in the name of both the taxpayer and spouse. The owner must be at least 24 years old before the bond's issue date. In addition, the amount of your interest exclusion is gradually phased out if your modified adjusted gross income is between \$78,150 and \$93,150, if single and between \$117,250 and \$147,250 if married filing jointly.

Identity Theft - Identity thefts are becoming more frequent. A taxpayer's social security number is stolen and a fraudulent tax return is filed, with a fraudulent refund being issued. A lot of times individuals only become aware that this has happened when they try to file their own tax return and they receive notification from the IRS that a tax return has already been filed under the taxpayer's social security number.

Taxpayers should be aware of emails and phone calls, asking taxpayers for their personal information. Sometimes, the thieves say that they are IRS representatives. Taxpayers should not open a link or attachment, unless they can confirm the authenticity of the sender. The identity thieves often threaten the taxpayer with arrest if certain amounts are not immediately paid, and they ask for personal information from the taxpayer, to pay the taxes that are due. The IRS will not phone, email or text taxpayers for such information. You should not respond if you receive such communications. If you believe you are a victim of identity theft, you should contact the IRS and the IRS will flag the taxpayer's account for fraudulent activity, and they will give you an identity theft pin to be used when you file your tax return. Identify theft information can be found at: www.irs.gov. The Identify Protection Specialize Unit can also be reached at: (800) 908-4490.

TAX REFORM PROPOSED CHANGES

Senate Republicans unveiled their tax overhaul proposal with provisions that would preserve some important benefits for older Americans that are excluded from the plan the House of Representatives, passed. The House Republicans approved The Tax Cuts and Jobs Act, a massive \$1.5 trillion tax overhaul package that would provide large tax cuts to corporations, but raise taxes and health costs for millions of Americans. The Senate is now in the process of

preparing its own final tax reform package which, if passed, would need to be reconciled with the House, before final legislation can be sent to the President.

The Senate proposal maintains the medical expense tax deduction, a key benefit for older Americans and others with high health care expenses. The measure, which allows taxpayers to deduct out-of-pocket medical expenses that exceed 10 percent of their income, was used by 8.8 million taxpayers in 2015, more than half with a household member over 65. The House bill eliminates the medical expense deduction.

Still, millions of Americans would lose a big tax break under the Senate version, which would scrap state and local tax deductions, hitting residents of high-tax states such as New York, New Jersey, California and Illinois especially hard. The House proposal also would eliminate state and local income tax deductions but would allow homeowners to deduct up to \$10,000 in property taxes.

The plans also diverge on mortgage interest deductions. The Senate proposal retains current interest deductions on home loans up to \$1 million; the House measure keeps that deduction for existing mortgages, but limits them on new home loans greater than \$500,000.

In another departure from the House plan, the Senate proposal maintains the added standard deduction for taxpayers 65 and older, which is \$1,250 for individuals and \$2,500 for couples. There is no provision for this extra standard deduction in the House plan.

The House bill also provides 100 percent bonus depreciation for the next five years.

Both GOP plans slash the top corporate tax rate from 35 percent to 20 percent, although the House proposal cuts the rate in 2018, the Senate's in 2019. The House bill creates a new pass-through tax regime. The tax rate on pass-through businesses, such as "S" corporations and partnerships, would be 25 percent. The bill also provides a tax rate of 9 percent for the first \$75,000 of business income earned by owners of pass-through businesses, of all types, who earn less than \$150,000. The bill establishes safeguards to distinguish between individual wage income and pass-through business income. The Senate bill has a 17.4 percent deduction for qualifying pass through income, while the House bill taxes it to 25 percent. However, the House bill then has a 70/30 split, and treats active and passive participants differently. Capital-intensive businesses can get a greater portion of income eligible for taxation at the default 25 percent rate.

Other similarities and differences in the House and Senate versions include:

- **Tax brackets.** Both proposals would revamp individual income tax brackets. The House would establish four — down from the current seven — keeping the top bracket at 39.6 percent and setting new tax rates at 12 percent, 25 percent and 35 percent. The Senate plan would lower the top rate to 38.5 percent and set other brackets at 10 percent, 12 percent, 22.5 percent, 25 percent, 32.5 percent and 35 percent.
- **Standard deductions.** Both plans would end personal exemptions, currently \$4,050 for each taxpayer and each dependent they claim. Instead, standard deductions would rise from \$6,350 to \$12,000 for individuals and from \$12,700 to \$24,000 for married couples.
- **Alternative minimum tax.** Both plans would repeal this tax, which generally hits high-income earners.

- **401(k) plans.** Both plans would preserve these retirement plans, which allows workers 50 and older to contribute up to \$24,000 a year in pretax income.
- **Student loan interest.** The Senate plan would keep a tax credit that allows taxpayers to deduct up to \$2,500 annually in student loan interest. The House plan would eliminate it.
- **Child tax credits.** The Senate proposal would increase the child tax credit to \$2,000, up from the current \$1,000. The House plan would raise the credit to \$1,600, and create a new temporary family tax credit. The Family Credit, would help parents afford the cost of raising children, while providing a credit of \$300 for each parent and non-child dependent to help families with everyday expenses. The House bill also preserves the Child and Dependent Care Tax Credit, the Adoption Tax Credit and the Earned Income Tax Credit.
- **Estate taxes.** Both plans would raise the threshold on what is a taxable inheritance from \$5.5 million to \$11 million. The House plan would delay the repeal of the estate tax until 2024, the Senate would keep it.
- **Other tax breaks and credits.** Unlike the Senate plan, the House would end tax credits, worth up to \$7,500, on plug-in electric vehicles. The Senate measure would maintain the alimony deduction; the House proposal would kill it. The House plan also would eliminate the moving expenses deduction, while the Senate would allow some deductions for the military.
- **Patient Protection and Affordable Care Act -** The Senate bill would repeal the law's individual mandate. The provision is not in the House bill, with House Speaker Paul Ryan, having indicated that such a provision would be a non-starter in any negotiations.

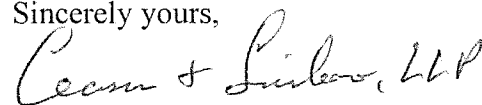
Republicans in both chambers say the tax cuts in their plans would mainly help low and middle income workers. House Speaker Paul Ryan says the House plan would save a typical family of four with a median household income of \$59,000 nearly \$1,200 a year. Senate Finance Committee Chairman Orrin Hatch says the Senate proposal would save a similar-sized family earning \$73,000 a year about \$1,500.

But Democrats have called Republican tax reform measures giveaways to the wealthy and corporations. And the nonpartisan Tax Policy Center says the House plan would eventually raise taxes for about 25 percent of Americans.

The House and the Senate will soon get together and reconcile their differences, which is the legislative process. Once this is done, The Tax Cut and Jobs Act bill will be sent to President Trump, to sign into law. The President hopes to get the new tax law passed by December 25, 2017. Once President Trump signs the new tax law bill, we will put on our website the new tax laws. Please visit our website at: <http://ceasarsmilow.com> for updated information.

These are just some of the considerations that can yield tax savings for you. Please feel free to call our office if you have any questions about how year-end tax planning might help you save taxes so we can discuss specific 2017 year-end strategies that might be particularly worthwhile to you.

Sincerely yours,



Cesar & Smilow, LLP