With the year-end fast approaching, it is time to consider some strategic moves to reduce your 2016 tax bill. This year's market activity makes it all the more important for clients and advisors to consider tax saving strategies. Where appropriate, realizing gains, harvesting losses and considering gifts to family and charity are all tax efficient strategies.

With Donald Trump now the President Elect and Republicans controlling the House and Senate, we are likely to see some movement in tax reform. Many of Trump's proposals aren't likely to be effective until the 2018 tax year, but we will be sure to keep you updated on relevant proposals and their impact to tax strategy.

Retirement Plans

We encourage you to take full advantage of your employee retirement plan, at least to the point of any employer match. As with your pre-tax salary deferrals, any employer contributions to your plan account are not taxed to you until distributed.

2016 Federal Limits for Retirement Accounts		
Account	**Contribution Limit**	**Catch-up Contribution**
401(k), 403(b) and 457	$18,000	$6,000
SIMPLE IRA	$12,500	$3,000
Qualified Retirement Plans/ Keogh and SEP-IRA	20% of net self-employment income (or 25% of compensation) up to $53,000	$6,000
Individual 401(k)	20% of net self-employment income (or 25% of compensation) plus, $18,000 up to $53,000	$6,000
Traditional IRA and Roth IRA	$5,500	$1,000

Some retirement plans allow participants to make after-tax contributions in addition to regular pre-tax or Roth salary deferrals. If you are a high earner and your plan allows it, consider making after-tax contributions with the intention of converting those amounts to a Roth IRA when you leave the plan.

Establish and fund IRA's for next generation

Help your child or grandchild get an early start on saving for retirement. Consider making a gift of up to $5,500 to either a traditional or Roth IRA for those who are not funding their own accounts, but have enough earned income to do so. Contributions can be increased to $6,500 for account owners 50 years or older. Contributions to IRA's for your family members are taxable gifts and should be coordinated with other gifts that you make during the year.

Prepay Deductible Expenditures

If you itemize deductions, accelerating some deductible expenditures into this year to produce higher 2016 write-offs makes sense if you expect to be in the same or lower tax bracket next year.

- **State and Local Taxes** – prepay state and local income and property taxes that are due early next year can reduce your 2016 income tax bill.
- **Mortgage Payment(s)** – Accelerating your mortgage payment that is due in January will give you 13 months' worth of deductible interest in 2016. You can also use the same strategy for a vacation home.
- **Miscellaneous Deductions** – for investment expenses, job-hunting expenses, fees for tax preparation and advice and unreimbursed business expense – count only to the extent they exceed 2% of AGI.

Be careful if you will owe the alternative minimum tax (AMT) this year as this prepayment strategy could backfire. Under the AMT rules, write offs for state and local taxes and miscellaneous deductions are disallowed. Speak with your tax advisor to see if you fall under AMT before you accelerate these deductions.

Charitable Donations

Charitable deductions are very valuable in this income tax rate environment. Consider starting a Donor Advised Fund (DAF) or contributing appreciated stock instead of cash to a charity or DAF. DAF's allow you to front load charitable contributions into one calendar year, but pay out the money over time. Gifting certain appreciated assets to select charities can also provide more "bang for the buck," as you not only may get an income tax deduction based on the fair market value of the donated asset, but you would also not have to pay capital gains tax on that asset's unrealized appreciation. Clients' should realize the full benefit of a tax deduction in the current calendar year, which could be helpful if there has been a spike in income.

HOW MUCH CAN BE DEDUCTED?				
	Amount Deductible if		% of Adjusted Gross Income Limitation if	
Type of Property	Public charity/ Donor-Advised	Private Foundation	Public charity/ Donor-Advised	Private Foundation
Cash	Cost	Cost	50%	50%
Qualified appreciated stock (unrestricted publicly traded stock)	Fair Market Value	Fair Market Value	30%	30%
Long-term capital gain property (other than qualified appreciated stock)	Fair Market Value	Cost	30%	20%
Ordinary income and short-term capital gain property	Cost	Cost	50%	30%
"Unrelated use" tangible personal property	Cost	Cost	50%	20%
"Related use" tangible personal property	Fair Market Value	Cost	50%	20%

Source: Internal Revenue Service

Tax Loss Harvesting

Tax loss harvesting involves selling an investment that has lost value to realize a capital loss and using that loss to offset either any realized capital gains or up to $3,000 a year in ordinary income. However, you do not want to undermine your long-term investment goals and sell investments just for tax purposes. Given the volatility throughout the year, this may be an attractive way to reduce your taxes in 2016.

If this strategy is appropriate for you, it is important to maintain your strategic asset allocation so that you continue to participate in the market. The IRS will not allow you to write-off the loss if you purchase substantially the same investment 30 days before or after the sale. This is called the "wash sale" rule.

Estate Planning

For 2016, the Federal Gift and Estate Tax exemption is at $5.45 million, or $10.9 million for a married couple. This exemption can be used during your lifetime to make gifts or at death to reduce or eliminate estate taxes. You may want to consider using a portion of this exemption removing the value and any appreciation from your estate. Even if you have an existing estate plan, you may want to have it updated to reflect these higher thresholds.

Annual gift exclusion

You can make annual exclusion gifts of up to $14,000 a year or $28,000 per couple to an unlimited number of individuals free from gift tax or without using any of your federal exemption. If you are making these gifts to an irrevocable trust, such as a life insurance trust that provides the beneficiaries with a limited withdrawal right, make sure the trustee notifies the beneficiaries and keeps the appropriate documentation (often referred to as "Crummey" Letters). Taking advantage of the annual gift tax exclusion can reduce your estate that may be subject to inheritance taxes.

Fund 529 Plans

Consider funding 529 plans by December 31 to apply 2016 annual gift tax exclusion treatment to the contributions. You can "front-load" 529 plans by making 5 years' worth of annual exclusion gifts to the 529 plans. In 2016, you could transfer $70,000 ($140,000 for a married couple) to a 529 plan without generating a gift tax or use up your estate tax exemption.

Annual Checklist

- Review portfolio for current risk level and circumstances
- Review your 2016 spending and create a budget for the upcoming year
- Review your outstanding debt, including interest rates and terms
- Update your financial statement/balance sheet
- Review insurance portfolio to make sure it meets your coverage needs
- Revisit your Wills, Trusts, Power of Attorney, Health Care Proxies to make sure you are comfortable with the agents
- Confirm beneficiary designations and asset titling
- Create an updated list of all logins and passwords
- Request a free credit report (*www.annualcreditreport.com*)

Planning for 2017

As always, be sure to discuss major life events with your advisor, such as marriages, divorces, births or deaths in the family, job or employment changes and significant upcoming expenses (i.e. real estate purchases, college tuition, etc.)

Please feel welcome to contact us with any questions regarding the above-mentioned strategies.

Wishing you and your family a Happy Holiday Season!

Warmly,

Your Sandy Cove Advisors Team

Sources:
Internal Revenue Service
Fidelity Year-End Tax Strategies
PWC Managing Your Wealth
JPM Morgan Advice Lab