2017 YEAR-END TAX PLANNING AMID

The final weeks of the year offer the opportunity for some final tax-saving strategies. At the time of this writing, uncertainty and debate surround federal tax reform that Congress might enact before the end of the year for 2018. Here are some tax tips to consider before year-end, including discussion as to how pending tax reform might come into play. Also included are some "refreshers" of a few proven business deductions that will likely survive major tax reform.

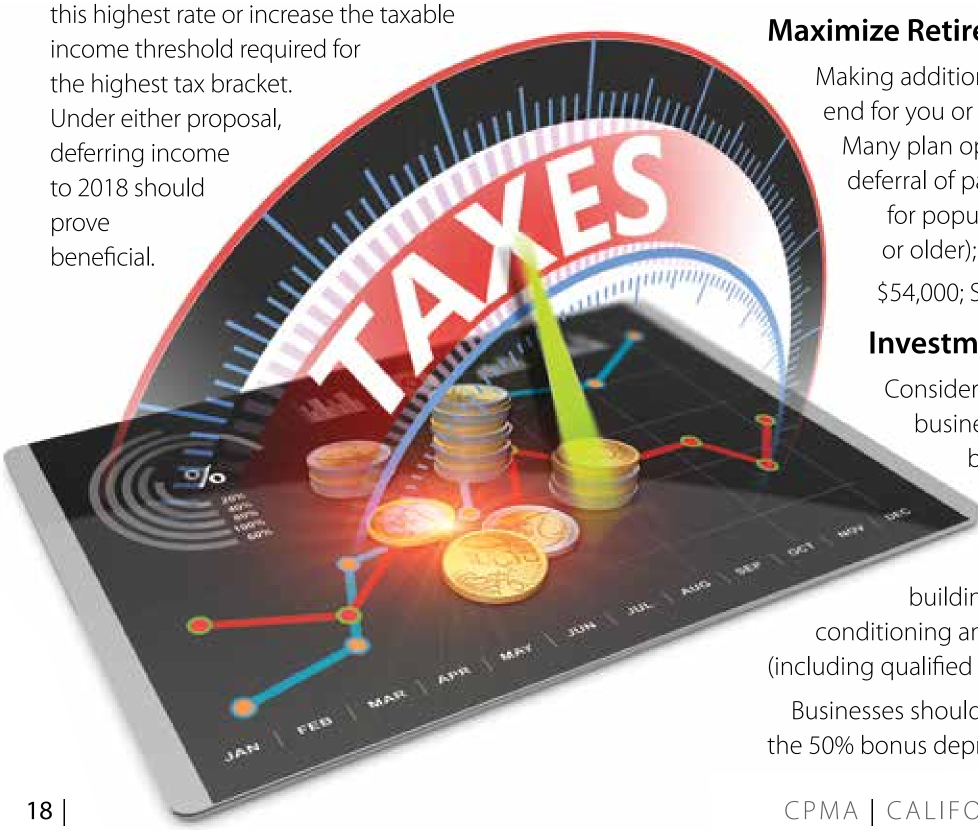
Defer Income to 2018 and Accelerate Deductions into 2017

Postponing income until 2018 and accelerating deductions into 2017 might be especially valuable if Congress succeeds in lowering tax rates next year in exchange for slimmed-down deductions. One way to accomplish an income deferral on the cash basis is by delaying billing until late December to ensure that you won't receive payment until 2018.

If your business is incorporated, you too should consider deferring income until 2018. If Congress succeeds in dramatically reducing the corporate tax rate to 20% in 2018, deferral of income might be even more beneficial.

If you are an employee, it might be advantageous to arrange with your employer to defer a bonus into early 2018 that you might have earned this year. In addition to the tax deferral, this could lower your tax bill if Congress reduces tax rates in 2018.

Higher earners should try to avoid the top individual tax bracket of 39.6%, which for 2017 starts at $418,400 for single and $470,700 for married taxpayers. Currently, the House and Senate have different tax bracket proposals for 2018, which either would reduce this highest rate or increase the taxable income threshold required for the highest tax bracket. Under either proposal, deferring income to 2018 should prove beneficial.



State and Local Taxes

If you expect to owe state income taxes when you file your 2017 return, consider making estimated tax payments of state taxes (or asking your employer to increase withholding of state taxes) before year-end to pull the deduction of those taxes into 2017 if you won't be subject to alternative minimum tax (AMT) in 2017. Pulling state tax deductions into 2017 will prove to be especially beneficial if Congress eliminates such deductions beginning next year.

Also, estimate the effect that any year-end planning might have on potential AMT for 2017, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes. These include the deduction for property taxes on your residence, state income taxes, miscellaneous itemized deductions, and personal exemption deductions. If you are subject to AMT for 2017, or suspect you might be, these types of deductions should not be accelerated.

Regardless of what happens in Congress, deferring income and accelerating deductions could also enable you to claim larger deductions, credits, and other tax breaks for 2017 that are phased out over varying levels of adjusted gross income (AGI). Examples include child tax credits, higher education tax credits, and deductions for student loan interest. 2017 might be your last chance to claim these tax benefits as many are either not included or are being modified by the proposed tax bills in Congress.

Use Your Credit Card

Don't forget that you can use a credit card to pay deductible expenses before the end of the year, even if you don't pay your bill until after the end of the year.

Maximize Retirement Contributions

Making additional retirement plan contributions by the year-end for you or your employees can add to your tax savings. Many plan options are available and some plans allow deferral of payment until 2018. 2017 contribution limits for popular plans include: IRA $5,500 ($6,500 age 50 or older); 401(k) $18,000 ($24,000 age 50 or older); SEP $54,000; SIMPLE $12,500 ($15,500 age 50 or older).

Investments in Equipment and Supplies

Consider making expenditures that qualify for the business property expensing option. For tax years beginning in 2017, the expensing limit is $510,000 and the investment ceiling limit is $2,030,000. Expensing is generally available for most depreciable property (other than buildings), off-the-shelf computer software, air conditioning and heating units, and qualified real property (including qualified leasehold improvements).

Businesses should also consider buying property that qualifies for the 50% bonus depreciation if purchased and placed in service this year (the bonus percentage declines to 40% next year). The 50% first-year bonus write-off is available even if qualifying assets are in service for only a few days in 2017.

Another option for businesses is the "de minimis safe harbor election" to expense the purchase of lower-cost assets and materials and supplies. To qualify for the election, the cost of a unit of property generally can't exceed $2,500. This election is helpful for currently deducting the costs of items like laptops and related equipment.

Automobile Deductions

Automobiles are subject to more restrictive rules than those that apply to other depreciable assets. Under the "luxury auto" rules, for a new automobile (that isn't a small truck or van treated as an automobile) first placed in service in 2017, the maximum depreciation deduction for the first tax year is limited to $11,160; $5,100 for the second tax year; $3,050 for the third tax year; and $1,875 for each succeeding tax year. The effect is generally to extend the number of years it takes to fully depreciate the vehicle.

Because of the restrictions for automobiles, you might be better off from a tax-saving perspective if you buy a sport utility vehicle (SUVs) instead of a car. The regular annual depreciation and expensing caps for passenger automobiles don't apply to trucks or vans (including SUVs) that are rated at more than 6,000 pounds gross (loaded) vehicle weight. You might also be eligible to elect to expense up to $25,000 of the cost of the SUV and then depreciate the remainder of the cost.

These tax benefits are subject to adjustment for non-business use. If business use of the vehicle doesn't exceed 50% of total use, the SUV isn't eligible for expensing and has to be depreciated on a straight-line method over a six-tax-year period.

As an alternative to deducting actual automobile expense (e.g. gasoline, maintenance, and depreciation described above), you can use the standard mileage rate of 53.5¢ per mile. If claiming the deduction for mileage, be sure to keep a mileage log to record all miles and the purpose of each trip. Mileage for traveling to your office is generally considered commuting and is not tax deductible.

Business Travel Expenses

The actual costs of travel (e.g. airfare, taxi, etc.) are deductible for out-of-town business trips. You're also allowed to deduct the cost of meals and lodging. Your meals while traveling are deductible (at 50%) even if they're not connected to a business conversation or other business function.

Allocations might be required if the trip is a combined business/pleasure trip. For example, if you fly to a location for five days of business meetings and stay on for an additional period of vacation, only the cost of meals, lodging, etc., for the business days are deductible; not for the personal vacation days.

On the other hand, with respect to the cost of the travel itself (airfare, taxi, etc.), if the trip is "primarily" business, the travel cost can be deducted in its entirety and no allocation is required. Conversely, if the trip is primarily personal, none of the travel costs are deductible. An important factor in determining if the trip is primarily business or personal is the amount of time spent on each, although this isn't the sole factor.

If the trip doesn't involve the actual conduct of business but is for the purpose of attending a convention or seminar, the IRS checks the nature of the meetings carefully to make sure they aren't vacations in disguise. Be sure to save all material helpful in establishing the business or professional nature of this travel.

Avoiding Estimated Tax Penalties

Individuals must pay 25% of a "required annual payment" by April 15th, June 15th, September 15th, and January 15th, to avoid an underpayment penalty. The required annual payment for most individuals is the lower of 90% of the tax shown on the current year's return or 100% of the tax shown on the return for the previous year. Certain high-income individuals must meet a more rigorous requirement. If the adjusted gross income on your previous year's return is over $150,000 (over $75,000 if you are married filing separately), you must pay the lower of 90% of the tax shown on the current year's return or 110% of the tax shown on the return for the previous year. Corporations may generally pay the lower of 100% of the current year tax, or 100% of the tax reported in the previous year.

California rules for individuals are similar to the federal estimated tax requirements, except the quarterly amounts due are modified as follows: 30% for April 15th, 40% for June 15th, none for September 15th, and 30% for January 15th. Also, California taxpayers with adjusted gross income of at least $1,000,000 must make estimated payments based on 100% of the tax due on the current year's return. Corporations in California don't have the option of using the previous year's return method and must make quarterly estimates based on the tax shown on the current year's return. California corporations must also make the fourth quarterly installment by December 15th.

If you fail to make the required payments, you may be subject to an underpayment penalty. The penalty equals the product of the interest rate charged by IRS on deficiencies, times the amount of the underpayment for the period of the underpayment.

Final Note

The ideas presented represent general tax-planning strategies and may not necessarily fit your particular tax situation. Also, final enacted tax reform could present new opportunities for tax planning. Please consult your tax advisor for specific planning ideas to fit your individual needs or contact us (Gilbert Associates, Inc.) as we are available for consultation regarding your specific tax matters at (916)646-6464.

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