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CERTIFIED PUBLIC ACCOUNTANTS

November 2017

To our Clients and Friends:

Year-end tax planning can provide most taxpayers with a good way to lower a tax bill that will otherwise be waiting for them when they file their 2017 tax return in 2018. Since tax liability is primarily keyed to each calendar tax year, once December 31, 2017 passes, your 2017 tax liability will mostly be set in stone.

Year-end 2017 presents a unique set of challenges for many taxpayers because of current efforts by Congress and the Trump Administration to enact tax reform legislation. Whether this ambitious plan will be successful by the end of this year remains uncertain; but the reasons to prepare to maximize any benefits if it does happen are indisputable. Both talk of lower tax rates and fewer deductions requires careful monitoring at this time with "contingency" plans ready to go before year-end should these changes occur retroactively to 2017.

Tax reform, although important, is not the only reason to engage in year-end tax planning this year. Other changes in the tax law made by the IRS and the courts have already taken place in 2017. Opportunities and pitfalls within these recent changes should not be overlooked. This particularly rings true as we approach year-end 2017.

Although year-end 2017 may be unique because of possible tax reform, planning during the final weeks and months of this year involves much more, both in terms of traditional year-end strategies and strategies developed in response to developments that have taken place since last year. Here are some points for individuals to consider:

Data gathering: Year-end planning should start with data collection and a review of prior year returns. This includes information on losses or other carryovers, estimated tax installments, and items that were unusual. Conversations regarding next year should include discussions of any plans for significant purchases or dispositions, as well as any possible life cycle events.

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. Also relevant are "tax reform" proposals that may compress tax brackets and lower tax rates. These changes could present year-end tax planning opportunities for taxpayers depending on when any proposed rate changes go into effect.

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 toward 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 rates, the net investment income tax rate, the capital gain rates, and the alternative minimum tax (AMT).

Income caps on benefits: Monitoring adjusted gross income (AGI) at year-end can also pay dividends in qualifying for a number of tax benefits. Often, tax savings can be realized by lowering income in one year at the expense of realizing a bit more in another year.

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 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 try to predict any events that could trigger significant income, losses, or deductions.

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2017 tax law changes: In addition to possible changes that may be part of current tax reform efforts, other tax law changes by the IRS and the courts that have taken place during 2017 are worth a look in mapping out year-end strategies.

- Relief for late rollovers: The IRS unveiled a new self-certification procedure for taxpayers who inadvertently miss the 60-day time limit for certain retirement plan distribution rollovers.
- Hurricane disaster relief: For victims of Hurricanes Harvey, Irma, and Maria in 2017, a variety of tax relief measures are now available, through a special Disaster Relief Act of 2017 and numerous IRS measures to extend compliance deadlines and other requirements.

If you own a business, the last couple months of the year provide an important "last chance" to change the final course of your tax year before it closes for good. Among the reasons why year-end tax planning toward the end of 2017 may be particularly fruitful are the following:

Business credits and deductions: Many business-related tax credits and deductions that were scheduled to expire after 2015, were permanently extended by the PATH Act. Others were only extended one year and are not available for the 2017 filing season unless extender legislation is enacted. A few were extended for a five-year period. Taking note of what deductions and credits your business has been using and whether they remain available or will be removed in the near future can significantly impact your bottom line. For example, one major tax deduction for many businesses is bonus depreciation. Property placed in service in 2017 is eligible for bonus depreciation at a 50% rate. The rate is reduced to 40% in 2018 and 30% in 2019. Bonus depreciation expires after 2019. Talk of "full expensing" under tax reform also belongs in this mix.

Repair regulations: In 2013, the IRS issued final tangible property regulations (a.k.a., the "repair regs") on accounting for costs to acquire, repair, and improve tangible property. The repair regs impact virtually all businesses by providing the rules for distinguishing between capital expenditures and deductible repairs or other types of deductible expenses. While taxpayers were expected to file change in accounting methods using the automatic consent procedure to retroactively comply with the repair regs for their first tax year beginning in 2014, taxpayers that are not yet subject to a capitalization audit may continue to file these accounting method changes using certain automatic consent procedures.

Business use of vehicles: Several year-end strategies involving both business expense deductions for vehicles and the fringe-benefit use of vehicles by employees require an awareness of certain rates and dollar caps that change annually. Changes affecting 2017 include a drop in the standard business mileage allowance rate to 53.5 cents-per-mile, down from 54 cents-per-mile for 2016. The maximum depreciation limits for passenger automobiles first placed in service during the 2017 calendar year remain the same as 2016.

Affordable Care Act: Despite Congressional attempts to repeal the Affordable Care Act (ACA), the basic structure of the ACA for businesses, both large and small, generally remains intact. If an employer is an applicable large employer (ALE) based on the previous year's employee head-count, employer shared responsibility provisions and employer information reporting provisions are triggered. Small businesses, however, are not unaffected by the ACA and should take the ACA into account in year-end planning. Some incentives in the ACA could help maximize tax savings for small businesses. Planning now, both to qualify for 2017 incentives and to meet 2018 compliance requirements, is advisable.

Timing rules: Timing, and the skilled use of timing rules to accelerate and defer certain income or deductions, is the linchpin of year-end tax planning. For example, timing year-end bonuses or year-end tax payments, or timing sales of investment properties to maximize capital gains benefits should be considered. Taxpayers can write a check or can charge an item by credit card and treat these actions as payments. It often does not matter for tax purposes when the recipient receives a check mailed by the payor, when a bank honors the check, or when the taxpayer pays the credit card bill, as long as done or delivered "in due course."

Attached for your reference is a Quick Reference Chart that provides the most commonly requested rates, figures and limits for 2017 and 2018 as the law currently stands. For updates on year-end tax reform, please sign up for our newsletter at www.rkkm.com/newsletter. We would like to thank you for allowing us to be of service to you. Please feel free to call our office if you have any questions about how year-end tax planning might help you save taxes.

Very truly yours,

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Quick Reference Chart

As of 11/28/17

	2017	2018
Mileage rate - business travel	53.5₵	Not Yet Released
Mileage rate - medical or moving	17₵	Not Yet Released
Mileage rate - charitable	14₵	Not Yet Released
401(k), 403(b) or 457 retirement plan deferral limit	$18,000	$18,500
Catch up contribution (age 50 or older)	$6,000	$6,000
Defined contribution plan total contribution limit	$54,000	$55,000
SIMPLE IRA deferral limit	$12,500	$12,500
Catch up contribution (age 50 or older)	$3,000	$3,000
Traditional and ROTH IRA contribution limit	$5,500	$5,500
Catch up contribution (age 50 or older)	$1,000	$1,000
Earned income limits for Social Security recipients:		
If you will not reach full retirement age by year end	$16,920	$17,040
During year of full retirement, prior to full retirement age	$44,880	$45,360
After full retirement age (66 for those born 1943-1954)	No limit	No limit
Standard deduction:		
Single or married filing separate	$6,350	$6,500
Married filing joint	$12,700	$13,000
Head of household	$9,350	$9,550
Personal exemption	$4,050	$4,150
Phase-out ranges for single	$261,500 - $384,000	$266,700 - $389,200
Phase-out ranges for married filing joint	$313,800 - $436,300	$320,000 - $442,500
Maximum earned income credit (EIC)	$6,318	$6,444
Flexible spending arrangement (FSA) contribution limit	$2,600	$2,650
Health savings account (HSA) contribution limits:		
Self-only coverage	$3,400	$3,450
Family coverage	$6,750	$6,900
Catch up contributions (age 55 or older)	$1,000	$1,000
Annual gift tax exclusion	$14,000	$15,000
Code Section 179 expense limitation	$510,000	$520,000
Code Section 179 investment limitation	$2,030,000	$2,070,000
Social Security (OASDI) wage base	$127,200	$128,700

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