TAX PLANNING 2017

Benjamin Franklin said nothing is certain except for death and taxes. This year he may be only half right. That's because a dramatic tax overhaul is on the table in Washington for the first time in thirty years. If Congress and the White House are able to pass tax reform, we could see significant tax code changes that impact our overall tax burden. But that is no easy task. The federal tax code is more than one million words long, making it longer that the combined works of William Shakespeare and about twice the length of War and Peace. Current proposals suggest big changes to the tax bracket structure, personal deduction exemptions and child care credits. Tax breaks we've relied on in the past may change or disappear. Or, the political process may jam up again and reform will grind to a halt. The outcome is far from certain.

In baseball everyone loves a dramatic homerun. But a long time ago, teams found out they could beat a power-hitting opponent with a disciplined, methodical strategy that emphasized small gains and flexibility. By gradually getting players on base with modest base hits, they could eventually run up the score using this "small ball" strategy. If ever there were a time when the principles of small ball could be used in your tax strategy, it's now. The uncertainty surrounding tax reform in Washington makes it risky to make big moves in your tax strategy. It also means being locked in to old planning could hurt you if any of the major tax changes contemplated by lawmakers go through. It's time to stay nimble. It's time to get on base with some small, but important steps. When tax reform gets done, you'll need to be ready to hit the ground running and score. Here's how:

GET FLEXIBLE: Begin by looking at flexibility in your taxable income. If the tax system changes, you could find yourself on the wrong side of a new tax bracket structure or ineligible for an important deduction you've claimed in the past. Be prepared with strategies to lower your taxable income. This could include increasing your contributions to tax-deferred retirement plans. For consultants, it could mean deferred or expedited billing of clients at the end of the year.

SHIFT ASSETS: Another technique to lower taxable income is to shift income-producing assets to family members with lower tax rates. Unearned income up to $2,100 can be taxed at your child's lower tax rate. But be careful, unearned income greater than this will be taxed at the parent's tax rate rather than the child's.

OFFSET GAINS: Offsetting capital gains with capital losses is another planning method. Selling losing stocks, for example, will allow you to deduct your capital loss against any realized gains from your portfolio. Also, any excess capital losses up to $3,000 can be deducted against your regular income every year. Unused capital losses can be saved and “harvested” for deductions in future years. Having this option available to you will give your tax strategy extra adaptability in the face of change.

CHARITABLE CONTRIBUTIONS: Managing charitable contributions is another useful tool to react to tax law changes. You can donate appreciated stock you have owned for one year or more to a charity and receive a deduction equal to its market value. This not only avoids capital gains tax, it also increases your itemized deductions. If you are age 70 ½ or older, you can make a direct rollover to a qualified charity from your IRA up to $100,000 that could satisfy your required minimum distribution.

BEWARE OF SPECIAL TAX ASSESSMENTS: It’s important to keep your income flexible in order to avoid special tax assessments. A 0.9% Medicare surtax is charged on wages or self-employment income beginning at $200,000 for single filers and a 3.8% net investment income tax impacts the highest tax bracket. Any of these thresholds could change under coming legislation.

REMEMBER THE TRIED–AND-TRUE: Remember, there are some tried-and-true strategies that will likely remain viable in the face of any changes such as maximizing your retirement plan contributions; contribute at least up to your employers match. Make employer–sponsored retirement plan contributions before year-end, if you are a business owner. Review your tax withholdings or estimated tax payments. Changes this year to your job, marital status, or dependents could affect your previous tax estimates.

Tax planning is and will be a challenge this year. However, knowing where you stand will keep you ahead of the game.