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Dear Client:

As the end of the year approaches, it is a good time to think of planning moves that will help lower your tax bill for this year and possibly the next. There are many factors that complicate tax planning to include the unknowns with a different party in the White House, overall economic uncertainty, and a lack of action taken on tax breaks that will expire at the end of 2016. This letter will provide information regarding tax law changes, both current and proposed, as well as provide actions you can take to minimize your 2016 tax liability. Not all of the actions we list will apply in your particular situation. After reviewing the list of actions, contact us at your earliest convenience so we can advise you on which tax-savings moves to make.

Following are some of the tax breaks that will expire at the end of 2016, unless Congress acts to extend them or make them permanent:

- Higher education tuition and fees deduction.
- Deductible mortgage insurance premiums.
- Energy provisions to include nonbusiness energy property credit, residential energy property credit, qualified fuel cell motor vehicle credit, new energy efficient homes credit, and the hybrid solar lighting system property credit.

Following are some of the developments related to tax law that will affect filing of 2016 returns:

- Individuals owing more than $50,000 in back taxes could have their passports suspended.
- In 2016 brokers are not required to send out corrected 1099-B's if the change is less than $100.

Following are some proposed developments that we will be following and will make you aware of when there is a change:

- Proposed Regulation 2016-0022-0001 would make significant changes in the discounts allowed for closely held entities for estate and gift tax purposes. Discounting for marketability and/or minority interests of closely held entities has been a valuable tax saving tool in the past. We will continue to monitor the status of these proposed regulations and keep you informed of actions that might be needed regarding your personal tax situation.
- Changes to the Affordable Care Act (ACA) are expected. The current sentiment regarding the ACA is that it won't be repealed in full as insuring those with preexisting conditions and allowing parents to insure children age 26 and under on their plan are parts of the ACA that many want to keep. However, it is anticipated that the employer mandate, individual mandate, premium tax credit, and Cadillac tax will be repealed. We will keep you apprised of changes when they are made.
- The Republican platform included an intention to lower both the corporate and individual income tax rates. If rates are lowered, this could occur as early as 2017. Generally, this would suggest postponing income to next year and paying deductible expenses in 2016.

Year-End Tax Planning Moves for Individuals

- Postpone income until 2017 and accelerate deductions into 2016 to lower your 2016 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2016 that are phased out over varying levels of adjusted gross income (AGI). Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2016.

- If you believe a Roth IRA is better than a traditional IRA, consider converting traditional-IRA money invested in beaten-down stocks (or mutual funds) into a Roth IRA if eligible to do so. Keep in mind, however, that such a conversion will increase your taxable income for 2016.

- If you converted assets in a traditional IRA to a Roth IRA earlier in the year and the assets in the Roth IRA account declined in value, you could wind up paying a higher tax than is necessary if you leave things as is. You can back out of the transaction by recharacterizing the conversion-that is, by transferring the converted amount (plus earnings, or minus losses) from the Roth IRA back to a traditional IRA via a trustee-to-trustee transfer. You can later reconvert to a Roth IRA.

- Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2016 deductions even if you don't pay your credit card bill until after the end of the year.

- Estimate the effect of any year-end planning moves on the AMT (Alternative Minimum Tax) for 2016, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes. These include the deduction for state property taxes on your residence, state income taxes, miscellaneous itemized deductions, and personal exemption deductions. If you are subject to the AMT for 2016, or suspect you might be, these types of deductions should not be accelerated.

- You may be able to save taxes this year and next by applying a bunching strategy to "miscellaneous" itemized deductions, medical expenses and other itemized deductions.

- Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer- sponsored retirement plan). RMDs from IRAs must begin by April 1 of the year following the year you reach age 70-½. That start date also applies to company plans. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn.

- Increase the amount you set aside for next year in your employer's health flexible spending account (FSA) if you set aside too little for this year. If you become eligible in December of 2016 to make health savings account (HSA) contributions, you can make a full year's worth of deductible HSA contributions for 2016.

- To reduce 2016 taxable income, consider disposing of a passive activity in 2016 if doing so will allow you to deduct suspended passive activity losses against ordinary and investment income.

- Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby save gift and estate taxes. The exclusion applies to gifts of up to $14,000 made in 2016 and 2017 to each of an unlimited number of individuals.

New Filing Dates for Businesses & Business Owners

- New Filing Dates:
  - C Corporations, Form 1120, change from March 15 to April 15.
  - Partnerships, Form 1065) change from April 15 to March 15.
  - Foreign Bank Account Reporting, Form 114, changed from June 30 to April 15.
  - Extended Trust/Estate Tax Returns, Form 1041, changed from September 15 to September 30th.
  - **Form W2's must be submitted to the social Security Administration by January 31 as compared to March 1 in the past.**
  - Estate and Gift Tax Returns must file a Form 8971 with each return. The Form 8971 provides the basis of items that are gifted or inherited to the recipient in order to create basis consistency.
  - **1099-Misc reporting non-employee compensation in Box 7, changed from February 28 to January 31**
  - **Increased penalties for not filing 1099's: $15 per 1099 if filed by February 28; $30 per 1099 if filed after February 28 but before August 1; $50 per 1099 if filed after August 1.**

- The Federal Labor Standard Act (FLSA) enacted new overtime rules for certain employees. Employers should have already received a letter from us regarding these changes. This information is also available on our website.

Year-End Tax-Planning Moves for Businesses & Business Owners

- Businesses should consider making expenditures that qualify for the business property expensing option (Section 179) and 50% bonus first year depreciation if bought and placed in service this year. Bonus depreciation is only available for new (not used) assets while Section 179 is available for both new and used assets. For tax years beginning in 2016, the expensing limit is $500,000 and the investment ceiling limit is $2,010,000. Expensing is generally available for most depreciable property (other than buildings). Both deductions are available even if qualifying assets are in service for only a few days in 2016.

- Businesses may be able to take advantage of the "de minimis safe harbor election" to expense the costs of lower-cost assets and materials and supplies, assuming the costs don't have to be capitalized under the Code Sec. 263A uniform capitalization (UNICAP) rules. To qualify for the election, the cost of a unit of property can't exceed $5,000 if the taxpayer has an applicable financial statement (AFS; e.g., a certified audited financial statement along with an independent CPA's report). If there's no AFS, the cost of a unit of property can't exceed $2,500. Where the UNICAP rules aren't an issue, purchase such qualifying items and place them in service before the end of 2016.

- A corporation (other than a "large" corporation) that anticipates a small net operating loss (NOL) for 2016 (and substantial net income in 2017) may find it worthwhile to accelerate just enough of its 2017 income (or to defer just enough of its 2016 deductions) to create a small amount of net income for 2016. This will permit the corporation to base its 2017 estimated tax installments on the relatively small amount of income shown on its 2016 return, rather than having to pay estimated taxes based on 100% of its much larger 2017 taxable income.

- If your business qualifies for the domestic production activities deduction (DPAD) for its 2016 tax year, consider whether the 50%-of-W-2 wages limitation on that deduction applies.

If it does, consider ways to increase 2016 W-2 income, e.g., by bonuses to owner-shareholders whose compensation is allocable to domestic production gross receipts. Note that the limitation applies to amounts paid with respect to employment in calendar year 2016, even if the business has a fiscal year.

As you have read, there are many changes to the tax rules as well as many opportunities to minimize your tax bill. Please contact your Widmer Roel professional to discuss any of these items or other tax questions you may have.

Widmer Roel appreciates your business. We wish you and your families a wonderful holiday season.

Very truly yours,
Widmer Roel PC