GYL Financial Synergies
A Focus Financial Partner
65 Memorial Rd, Suite 530
West Hartford, CT 06107
860-206-7400
TF: 844-248-9998
info@gylfinsyn.com
www.gylfinsyn.com

GYL FINANCIAL® SYNERGIES
A FOCUS FINANCIAL PARTNER

2016 Year-End Tax Planning Basics

AMT triggers

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home, and the exercise of incentive stock options.

The window of opportunity for many tax-saving moves closes on December 31, so it's important to evaluate your tax situation now, while there's still time to affect your bottom line for the 2016 tax year.

Timing is everything

Consider any opportunities you have to defer income to 2017. For example, you may be able to defer a year-end bonus, or delay the collection of business debts, rents, and payments for services. Doing so may allow you to postpone paying tax on the income until next year. If there's a chance that you'll be in a lower income tax bracket next year, deferring income could mean paying less tax on the income as well.

Similarly, consider ways to accelerate deductions into 2016. If you itemize deductions, you might accelerate some deductible expenses like medical expenses, qualifying interest, or state and local taxes by making payments before year-end. Or you might consider making next year's charitable contribution this year instead.

Sometimes, however, it may make sense to take the opposite approach — accelerating income into 2016 and postponing deductible expenses to 2017. That might be the case, for example, if you can project that you'll be in a higher tax bracket in 2017; paying taxes this year instead of next might be outweighed by the fact that the income would be taxed at a higher rate next year.

Factor in the AMT

Make sure that you factor in the alternative minimum tax (AMT). If you're subject to the AMT, traditional year-end maneuvers, like deferring income and accelerating deductions, can have a negative effect. That's because the AMT — essentially a separate, parallel income tax with its own rates and rules — effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2016, prepaying 2017 state and local taxes won't help your 2016 tax situation, but could hurt your 2017 bottom line.

Special concerns for higher-income individuals

The top marginal tax rate (39.6%) applies if your taxable income exceeds $415,050 in 2016 ($466,950 if married filing jointly, $233,475 if married filing separately, $441,000 if head of household). And if your taxable income places you in the top 39.6% tax bracket, a maximum 20% tax rate on long-term capital gains and qualifying dividends also generally applies (individuals with lower taxable incomes are generally subject to a top rate of 15%).

If your adjusted gross income (AGI) is more than $259,400 ($311,300 if married filing jointly, $155,650 if married filing separately, $285,350 if head of household), your personal and dependency exemptions may be phased out for 2016 and your itemized deductions may be limited. If your AGI is above this threshold, be sure you understand the impact before accelerating or deferring deductible expenses.

Additionally, a 3.8% net investment income tax (unearned income Medicare contribution tax) may apply to some or all of your net investment income if your modified AGI exceeds $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately).

Note: *High-income individuals are subject to an additional 0.9% Medicare (hospital insurance) payroll tax on wages exceeding $200,000 ($250,000 if married filing jointly or $125,000 if married filing separately).*

IRAs and retirement plans

Take full advantage of tax-advantaged retirement savings vehicles. Traditional IRAs and employer-sponsored retirement plans such as 401(k) plans allow you to contribute funds on a deductible (if you qualify) or pre-tax basis, reducing your 2016 taxable income. Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) aren't deductible or made with pre-tax

Required minimum distributions

Once you reach age 70½, you're generally required to start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (special rules apply if you're still working and participating in your employer's retirement plan). You have to make the withdrawals by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of the amount that wasn't distributed on time.

dollars, so there's no tax benefit for 2016, but qualified Roth distributions are completely free from federal income tax, which can make these retirement savings vehicles appealing.

For 2016, you can contribute up to $18,000 to a 401(k) plan ($24,000 if you're age 50 or older) and up to $5,500 to a traditional IRA or Roth IRA ($6,500 if you're age 50 or older). The window to make 2016 contributions to an employer plan typically closes at the end of the year, while you generally have until the April tax return filing deadline to make 2016 IRA contributions.

Roth conversions

Year-end is a good time to evaluate whether it makes sense to convert a tax-deferred savings vehicle like a traditional IRA or a 401(k) account to a Roth account. When you convert a traditional IRA to a Roth IRA, or a traditional 401(k) account to a Roth 401(k) account, the converted funds are generally subject to federal income tax in the year that you make the conversion (except to the extent that the funds represent nondeductible after-tax contributions). If a Roth conversion does make sense, you'll want to give some thought to the timing of the conversion. For example, if you believe that you'll be in a better tax situation this year than next (e.g., you would pay tax on the converted funds at a lower rate this year), you might think about acting now rather than waiting. (Whether a Roth conversion is appropriate for you depends on many factors, including your current and projected future income tax rates.)

If you convert a traditional IRA to a Roth IRA and it turns out to be the wrong decision (things don't go the way you planned and you realize that you would have been better off waiting to convert), you can recharacterize (i.e., "undo") the conversion. You'll generally have until October 16, 2017, to recharacterize a 2016 Roth IRA conversion — effectively treating the conversion as if it never happened for federal income tax purposes. You can't undo an in-plan Roth 401(k) conversion, however.

Changes to note

If you didn't have qualifying health insurance coverage in 2016, you are generally responsible for the "individual shared responsibility payment" (unless you qualified for an exemption). The maximum individual shared responsibility payment for 2016 increased to 2.5% of household income with a family maximum of $2,085 for 2016, up from 2% of household income for 2015. After 2016, the individual shared responsibility payment will be based on the 2016 dollar amounts, adjusted for inflation.

Since 2013, individuals who itemize deductions on Schedule A of IRS Form 1040 have been able to deduct unreimbursed medical expenses to the extent that the total expenses exceed 10% of AGI. However, a lower 7.5% AGI threshold has applied to those age 65 or older (the lower threshold applied if either you *or* your spouse turned age 65 before the end of the taxable year). Starting in 2017, the 10% threshold will apply to all individuals, regardless of age. This is something that you may want to factor in if you're considering accelerating (or delaying) deductible medical expenses.

Expiring provisions

Legislation signed into law in December 2015 retroactively extended a host of popular tax provisions — frequently referred to as "tax extenders" — that had already expired. Many of the tax extender provisions were made permanent, but others were only temporarily extended. The following provisions are among those scheduled to expire at the end of 2016.

- Above-the-line deduction for qualified higher-education expenses
- Ability to deduct qualified mortgage insurance premiums as deductible interest on Schedule A of IRS Form 1040
- Ability to exclude from income amounts resulting from the forgiveness of debt on a qualified principal residence
- Nonbusiness energy property credit, which allowed individuals to offset some of the cost of energy-efficient qualified home improvements (subject to a $500 lifetime cap)

Talk to a professional

When it comes to year-end tax planning, there's always a lot to think about. A tax professional can help you evaluate your situation, keep you apprised of any legislative changes, and determine whether any year-end moves make sense for you.

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