YEAR-END TAX PLANNING

As we get closer to the end of yet another year, it's time to tie up the loose ends and implement tax saving strategies. With the fate of many of the long-favored tax breaks (so-called extenders) having been settled late last year, this year's planning should be easier—at least more certain tax-wise—than it has been in quite awhile. Of course, the national elections, as always, bring about a certain amount of angst in the tax and financial world, but at least we know what the tax laws are for 2016.

We've listed below a few money-saving ideas that you may want to put in action before the end of 2016:

- Between now and year-end, review your taxable securities portfolio for any losers that can be sold before year-end to offset gains you have already recognized this year or to get you to the $3,000 ($1,500 married filing separate) net capital loss that's deductible each year.
- If your itemized deductions are just at or below the standard deduction (currently $12,600 for joint filers, $6,300 for singles, and $9,300 for heads of households), consider bunching itemized deductions, such as charitable contributions, property taxes, and the fourth quarter estimated state income tax payment into a single tax year and taking the standard deduction the following year. However, watch out for AMT, as these taxes aren't deductible for AMT purposes.
- If you are enrolled in a high-deductible health plan and don't have any other coverage, you may be eligible to make pre-tax or tax deductible contributions to an HSA of up to $6,750 for a family coverage or $3,350 for individual coverage—plus an extra $1,000 if you will be 55 or older by the end of 2016. Distributions from the HSA will be tax free as long as the funds are used to pay unreimbursed qualified medical expenses.
- If you have a 401(k) plan at work, it's just about time to tell your company how much you want to set aside on a tax-free basis for next year. Contribute as much as you can stand, especially if your employer makes matching contributions. You give up "free money" when you fail to participate to the max for the match. We can also assist businesses in designing retirement plans.
- If it looks like you are going to owe income taxes for 2016, consider bumping up the federal income taxes withheld from your paychecks now through the end of the year.
- If you have plans to buy a business computer, office furniture, equipment, vehicle, or other tangible business property or to make certain improvements to real property, you might consider doing so before year-end to capitalize on the following generous tax breaks: Section 179 deduction or first-year bonus depreciation.
- If you own an interest in a partnership or S corporation that you expect to generate a loss this year, you may want to make a capital contribution (or in the case of an S corporation, loan it additional funds) before year end to ensure you have sufficient basis to claim a full deduction.
- Watch out for the Alternative Minimum Tax (AMT) in all of your planning because what may be a great move for regular tax purposes may create or increase an AMT problem.
- And finally, don't overlook estate planning. The unified federal gift and estate tax exemption is a generous $5.45 million, and the federal estate tax rate is a historically (if not financially) reasonable 40%. The Washington State Estate tax exemption is $2,079,000 for deaths after 2015. Even if you already have an estate plan, it may need updating to reflect the current estate and gift tax rules. Also, you may need to make some changes that have nothing to do with taxes. Contact us if you could use an estate planning tune-up.

Again, these are just a few suggestions to get you thinking. If you'd like to know more about them or want to discuss other ideas, please feel free to call us.

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