Tax Planning

Tax Considerations for 2017

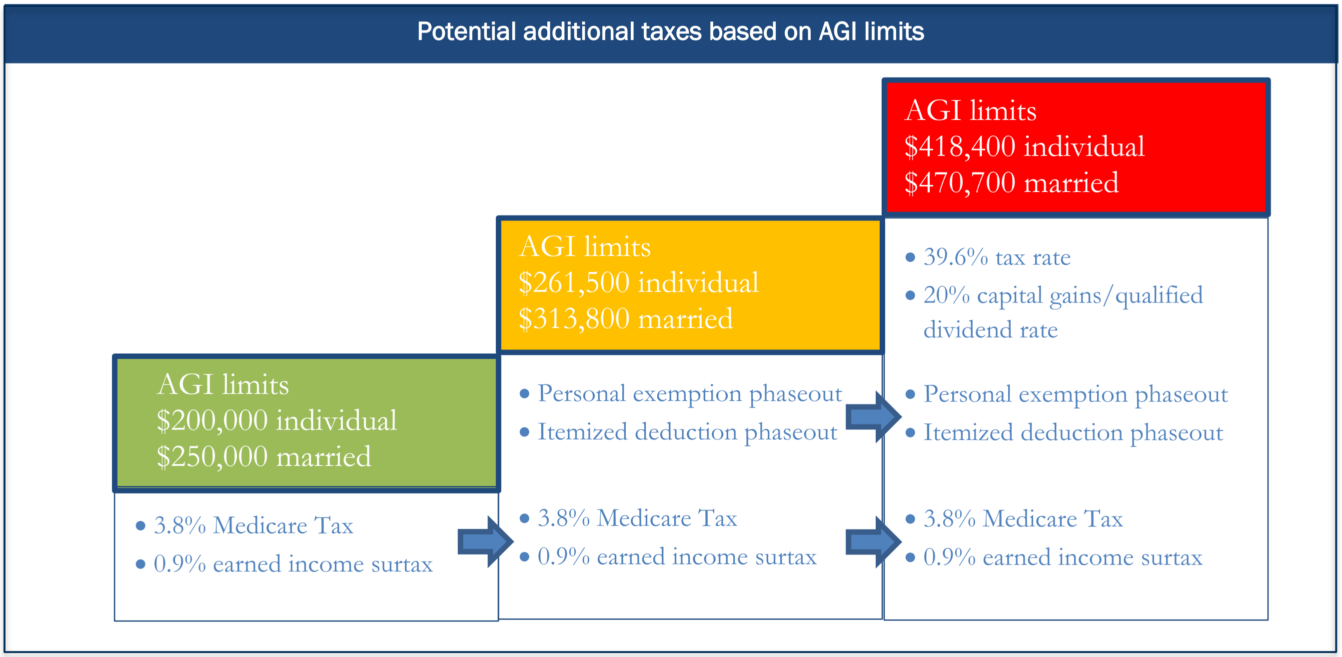
Could the winds of change be blowing?

Is this the year that major tax law changes occur? With a new President and a Republican majority in both the House and Senate, many think that may be the case. Republicans have long postured that the current tax rates are too high and that the estate tax should be repealed. Both Republicans and Democrats tend to agree that the current tax regime is too voluminous and complex. With all of these stars aligning, 2017 could be the year we have significant tax changes. However, such changes could take quite some time to complete. Below are a few reminders of the current income and estate tax rules.

HIGH INCOME EARNERS MUST CONTINUE TO NAVIGATE MANY TAX PROVISIONS

For individuals whose income[1] exceeds $200,000 a year ($250,000 for married couples), tax complexity remains in 2017. Surtaxes, phase-outs and higher rates can dramatically affect your tax liability. To better prepare for this unique set of challenges, consider the following:

Income Taxes *For those individuals whose AGI exceeds $200,000 ($250,000 if married), the following applies:*	
Alternative Minimum Tax (AMT)	The AMT exemptions are $54,300 ($84,500 if married). For singles, the exemption begins to phase out at $120,700, while for married couples filing jointly, the phase out begins at $160,900.
Medicare Health Insurance Surtax / Net Investment Income Surtax	• A 3.8% surtax applies on the lesser of excess of income over $200,000 ($250,000 if married) or Net Investment Income ("NII"), which generally includes interest, dividends, capital gains, rents, and other "passive" income. • An additional .9% tax applies on earned income above $200,000 ($250,000 if married).
Personal Exemption Phase-out	Incomes above $261,500 ($313,800 if married) will see their personal exemptions reduced by 2% for each $2,500 in excess of these thresholds. Exemptions completely phase out at $384,000 ($436,300 if married).
Itemized Deduction Phase-outs	Incomes above $261,500 ($313,800 if married) will see a 3% reduction in their itemized deductions above the thresholds. However, the reduction cannot exceed more than 80% of the total deductions.
Income Tax Rates	The tax bracket at $200,000 ($250,000 if married) is 33%. The top tax bracket is 39.6% for incomes above $418,400 ($470,700 if married). The 35% income tax bracket remains narrow.
Dividend and Capital Gain Rates	For income in excess of $200,000 ($250,000 if married), qualified dividends and capital gains rates generally remain at 15% For those in the highest tax bracket (39.6%), qualified dividends and capital gains rates become 20%. Combined with the net investment income surtax, that equals an 18.8% marginal rate for incomes in excess of $200,000 ($250,000 if married) and a 23.8% marginal rate for those in the highest tax bracket.



While the details of the incoming President's position on the estate and gift tax are fuzzy, it is clear he's looking for a change. For example, there has been speculation about removing step-ups in basis at death thereby requiring capital gains tax to be owed in lieu of estate tax. The Republican Congress has proposed eliminating the estate tax in the past. That said, the current rules are still in place.

Estate and Gift Tax	
Unified Gift and Estate Tax Exclusion	The unified gift and estate tax exclusion amount is $5.49 million, indexed annually for inflation. The estate and gift tax rate is 40%.
Spousal Portability	Spousal portability is available for any unused exclusion amount (requires the timely filing of a federal estate tax return upon first spouse's death).
Annual Gift Exclusion	The annual gift exclusion remains $14,000 per person, per year, and will continue to be indexed for inflation.

NEXT STEPS TO CONSIDER

As you continue to navigate through the myriad of tax rules consult with your tax adviser to determine whether some of the following actions could be beneficial for your specific situation:

- Consider fully funding employer-sponsored plans and/or tax deductible IRAs. Maximizing these contributions may lower your tax bracket.
- Consider Roth retirement planning options. Converting existing pre-tax retirement assets to a Roth IRA, or funding a Roth IRA or Roth 401(k) plan now, may provide more after-tax cash flow during retirement.
- If you are age 70½ or older and are charitably inclined, you can consider a tax-free qualified charitable distribution from an IRA. Using this technique, you can transfer up to $100,000 as long as your distribution is made directly to a qualified charity. Moreover, that distribution can count for all or part of your required minimum distribution.
- Turbulent markets may make certain tax planning strategies more advantageous. As you review your portfolio, look to see if some tax planning techniques may be better suited for your situation now given market fluctuations.
- Review whether you should take or defer gains and losses and/or income or deductions this year. Choosing the appropriate time to take such actions can help you control your potential tax liability. For example, if you believe taxes may remain high this year, you may consider accelerating losses and deductions. If you believe taxes may be lower, you may consider accelerating gains and income.
- Review your gift and/or estate planning situation. With the current law, you want to make sure your existing plan meets your legacy goals. Volatile markets may create opportunities to gift assets whose fair market value may be close to your cost basis. This could potentially allow your beneficiary to sell the asset and utilize the proceeds with little or no income tax consequence.

Taxes remain a complicated and moving target. Work with your Benjamin F. Edwards Financial Advisor to make sure your investments are aligned with your tax strategy. Working together with your tax and financial advisors can allow you to maximize your after tax dollars. ■