Holiday season is here. Lots to do, including year-end tax planning. Yes, you need to carve out some time to reduce your 2016 tax bill. Planning this year could be extremely important. A tax reform is likely in early 2017 that would reduce income tax rates, increase standard deductions and could reduce the impact of big tax deductions. The basic strategy is to defer income and accelerate deductions.

Here are some key areas for you to review with your CPA:

**Reduce income.** The standard advice of pushing as much income as possible into future years is all the more powerful if tax rates drop. Small business owners might want to wait until the end of December to bill clients so that related payments are received in January. They might also buy equipment and place it in service before December 31. The Section 179 Deduction permits up to $500,000 of business equipment to be written off 100% in year of purchase. The closing of a sale of real estate might be put off until January 2, 2017. If you are in retirement and living off IRAs, consider deferring taking any more distributions until early 2017.

**Retirement Tax Breaks.** If you are contributing to a traditional 401(k) or other retirement plan, considering maximizing it ($18,000 for those under 50 and $24,000 for those 50 and over) with larger deductions on your December paychecks. Consider maximizing IRAs ($5,500 and $6,500 respectively) even if your contributions are not deductible, as you may want to convert those to Roth IRAs in the future.

**Capital Gains and Losses.** Capital gains taxes are likely to be less in future years for higher income American taxpayers under tax reform proposals. The House GOP plan would revert to an older system that taxes a portion (50%) of investment income at regular rates and excludes...
the rest. You and your financial advisor should review your portfolio for all realized and unrealized capital gains and harvest appropriate losses before year-end if you haven’t already done that.

**Medical Expenses.** Taxpayers can deduct medical expenses if they amount to 10% of their income or 7.5% for taxpayers 65 and older. If you’re scheduling an expensive procedure, you might want to get it done and paid in 2016. Some tax reform proposals eliminate medical expense deductions. And, even if medical expense deductions remain available, they may not be worth as much in tax savings if your income tax rate goes down.

**State and local taxes.** This deduction may be coming to an end. Already, four million Americans lose this deduction due to the Alternative Minimum Tax (“AMT”). Both the Trump Plan and the Ryan Plan intend to eliminate the AMT. If so, this deduction could be wiped out. Hence, if possible, consider paying your property taxes and/or state income taxes in 2016.

**Mortgage Interest.** All tax reform proposals have continued to support a mortgage interest deduction. However, it might make sense to make your January 2017 mortgage payment in December. The standard deduction is expected to be doubled to $25,000 to $30,000. If so, fewer taxpayers will itemize.

**Charitable Contributions.** The raising of the standard deduction will likely mean fewer taxpayers will get a tax benefit from their charitable contributions. And, even if they do itemize, their income tax bracket may be reduced going forward. Therefore, consider contributing both your 2016 amounts and your 2017 charitable contributions by 12/31/16. Here are three good ways to do this:

- You can contribute to “Donor-advised” funds this year and get the deduction in 2016 and then make “grants” to charities with these funds as desired in the future.
- You can contribute appreciated property such as stocks, mutual funds and exchange traded funds to a charity. The taxpayer doesn’t pay the capital gain on the appreciation and gets a full charitable contribution deduction. And, yes, appreciated property can fund your donor-advised fund.
- You can make a “Qualified Charitable Distribution” (“QCD”) from your IRA. A QCD allows an IRA owner who is at least age 70 ½ to contribute up to $100,000 to a charity without having to claim the distribution in taxable income. This is particularly valuable to philanthropic taxpayers who can fulfill their Required Minimum Distributions (“RMDs”) by sending payments...
directly to the charities of their choice.

Our clients know that at DWM we recommend starting tax planning in April or May, following it up in the fall and finalizing it in December. We don’t prepare tax returns. We do provide suggestions for reducing taxes. Helping you minimize your tax bill is part of the value you get with DWM Total Wealth Management. Please let us know if you have any questions. Don’t delay!