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Dear Clients and Friends,

There is still time to make moves to reduce your 2017 tax bill, but the time is running out.

Lawmakers in Washington have done a lot of talking and posturing but nothing has been finalized as of today. There will be changes coming next year and we will try and take advantage of some tax saving tips today in anticipation of those changes.

This letter provides suggestions to help streamline your upcoming filing experience. It also offers updates on changes that may impact the taxes you'll owe this year. These changes are especially important if you've used tax deductions that are now expired, including the tuition and fees deduction, the lower medical expense deduction for those over age 65 and the mortgage insurance premium deduction.

Don't hesitate to call for a discussion about any last-minute moves to ensure your 2017 tax return is as efficient as possible. Otherwise, we'll see you in our office when you're ready to have your tax return prepared.

As always, feel free to share this letter with friends and associates who are interested in minimizing their tax obligations.

Year-end tax planning tips

If it looks like you're going to have a high tax bill this calendar year, there are things you can do to reduce it. Here are some ideas to consider:

Defer taxable income

You can try to defer some of your income into next year, but it can be tricky. If you're an employee, you may be able to request that additional compensation or a bonus be shifted to the next year.

If you're self-employed, you usually have more flexibility. Cash-basis businesses should consider receiving payment after the end of the year. Try to schedule some of your billable work into the next year.

Contribute to retirement plans

Contributions to retirement plans such as 401(k)s and various IRAs can lower your taxable income. For instance, you can contribute up to $18,000 a year to a 401(k) and $5,500 to a Traditional IRA – and more if you are age 50 or older. This will directly reduce your taxable income for the year.

Manage retirement withdrawals

If you're retired, manage your withdrawals from retirement accounts to optimize your taxable income.

Also, be sure to account for income when you can't control its timing. For example, regular Social Security payments (which may be partially taxable), as well as required minimum distributions from Traditional IRAs after age 70½, may push you into a higher tax bracket if you're not careful.

Take investment losses

If you have investment losses, consider selling them at a loss before the end of the year to use a strategy called tax-loss harvesting. Investment losses can be used to offset capital gain income, plus $3,000 of ordinary income.

Knowing the rules in this area can be a great opportunity to manage your tax bill. For instance, you must separate short-term investments (those you've held a year or less) from long-term investments, and net out the losses and gains in each category separately. Any excess losses after you're done can then be used to offset remaining capital gains, or up to $3,000 of ordinary income.

Also beware of the "wash sale" rule, which says that after selling an investment for tax-loss harvesting, you can't buy a "substantially similar" asset for at least 30 days.

Shift deductions

If you itemize your deductions, there are many ways to reduce your taxable income by managing these deductions. Here are some ideas on how to do this:

If your real estate taxes are more than $10,000 or you own more than one home, you will lose part of your real estate tax deductions, if the new law is passed. You can save some tax by pre-paying up to 2 quarters of your 2018 real estate taxes by December 31, 2017. It will also benefit you to pay your 4th quarter state estimate by December 31, 2017. However, this should be discussed with your tax advisor to make sure you are not in the AMT.

Since most interest on your mortgage is tax-deductible, consider making your January payment in December. That way there is an additional interest payment available for this tax year. While medical deductions are somewhat limited, it could be a good time to take care of those appointments and procedures you've been putting off. Schedule appointments before the end of the year so that you can deduct any unreimbursed expenses this year. Also, pay any unpaid doctor bills this year. Special planning is required here, as your medical expenses must exceed 10 percent of your adjusted gross income before they impact your taxable income.

Consider donating to a charity before the end of the year. Most donations to qualified charities are tax-deductible. Keep accurate and detailed records of all your donations.

If you are looking for ways to reduce your taxes, give us a call. We would be more than happy to help you determine which tax planning options are best for your situation.

Plan now for a smooth tax preparation experience

As important tax records start filling mailboxes, how can you make sure your tax preparation goes smoothly and efficiently this year? Here are some tips:

Keep it all in one place. It seems obvious, but how often have you found yourself going through piles of paper looking for that elusive 1099 tax form or charitable deduction receipt? Store all documents in one place. If you do only one thing this year, do this.

Sort. Now that everything is all together, sort your information into the same buckets used on your tax return. At a minimum, sort the information into the following basic categories. If you have a lot in one category, sort that stack into the subcategories:

Income: Wages (W-2), alimony, business income (1099-MISC, K-1), interest income (1099-INT), dividends (1099-DIV), gambling winnings (W-2G), Social Security, investments (1099-B) and other income items

Income adjustments: Student loan interest, alimony paid, educator expenses, moving expenses, other education expenses, IRA contributions and HSA/MSA contributions

Itemized deductions: Taxes paid, charitable contributions, interest expenses (mortgage and home equity), medical and dental expenses, investor expenses, casualty and theft losses, unreimbursed employee expenses

Credit information: Child and dependent care expenses, other credit-related expenses, adoption expenses, education expenses

Business/rental: Sort income and expenses for business activity, hobby activity or rental unit

Note: This list is not all-inclusive. It is here as a starting point to help you sort your information and streamline your filing.

Create a "not sure" folder. There may be things you receive that you are not certain you'll need for tax filing purposes. These items should be gathered in one place for review.

Sum it up. Once the information has been categorized, create a summary of the information. This summary can be a filled-out copy of a tax organizer or it could be a simple recap you create.

Check for missing items. Pull out last year's tax return and create a list of things you needed last year. Use this as a checklist against this year's information. While this process will not identify new items, it will help identify missing items that qualified in prior years.

Finalize required documentation. Certain deductions require documentation to qualify your expenses. Common areas that require this are: business mileage, charitable mileage, medical mileage, moving mileage, noncash charitable contributions and certain business expenses. These records should be maintained throughout the year for deductions, but now is a good time to make sure they are complete and ready to go for tax filing.

It's very easy to overlook something given the lengthy list of taxable income items, deductions and credits. By following these tips you can greatly reduce that risk.

New tax exemption for veterans for 2017

New Jersey is allowing veterans who have been honorably discharged or released under honorable circumstances an annual $3,000 tax deduction beginning with the 2017 tax return. However, you must have your eligibility certified by the state by completing a Veteran Exemption Submission Form along with your Form DD-214, Certificate of Release or Discharge from active service. This certification only has to be done in the first year you are claiming the exemption.

Tax breaks that are out for 2017

Three tax breaks expired permanently in 2016, so don't count on these when you file your 2017 taxes:

Home mortgage insurance premium deduction. If you bought your home with less than a 20 percent down payment, banks typically require you to pay for home mortgage insurance. The ability to deduct the cost of that insurance from an itemized return expired in 2016.

Tip: Not much can be done here, other than paying down your mortgage to eliminate the need for this insurance.

Tuition and fees deduction. A tax break to deduct up to $4,000 of tuition and fees from accredited educational institutions is now expired.

Tip: Leverage other educational tax breaks such as the American Opportunity Tax Credit and the Lifetime Learning Credit.

Reduced senior medical expense threshold. Seniors age 65 and older were able to deduct the cost of medical expenses greater than 7.5 percent of their adjusted gross income, which was a lower threshold than normal. They lose that benefit in 2017, when the threshold will be 10 percent for everyone.

Tip: Plan for two years of medical procedures if possible. This way you can load up your medical expenses into one year to take advantage of the new, higher threshold. This is especially important if a family member has unexpected medical bills. Getting all the billing into one tax year becomes more important than ever.

Keep in mind we may see these tax breaks return if Congress acts to reinstate them.

Sincerely,

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