2016 Year-End Tax Planning For Individuals

Now that we are into the holiday season, it is a good reminder that the end of 2016 is just around the corner. At this point, there are just weeks left to make any last-minute decisions that may reduce your 2016 income taxes. We want you to take advantage of any opportunity that you have to save on taxes. We have prepared this article to offer a few suggestions and techniques that you may want to consider before the end of the year.

Common tax-saving techniques

While some may be accustomed to considering these techniques, they're worth mentioning again, as they can be effective at reducing or postponing income taxes.

- Have you maximized your retirement plan contributions, and your health savings account contributions?
- Have you maximized your flexible spending account(s) with your employer (i.e. medical & dependent care reimbursement)?
- Have you maximized your charitable contributions? These can be cash and non-cash like household items that you are no longer using or stock. Charitable stock donations are claimed at the fair market value of the stock without triggering any associated capital gain.
- Have you considered prepaying your 4th quarter state estimated tax payment, your projected state tax liability, and your property taxes by year-end to receive a 2016 federal tax deduction? Note that alternative minimum tax (AMT) could be an issue if considering this strategy.
- Have you reviewed your investment portfolio for year-to-date capital gains? Securities with unrealized capital losses could be liquidated by year-end to offset any capital gains realized. Keep in mind that an overall (net) capital loss is limited to $3,000 annually, the balance being carried forward indefinitely to future tax years.
- If you are self-employed, have you obtained or paid up all your health insurance premiums? Premiums paid for you and/or your family are an "above-the-line" deduction. They are not subject to the usual medical expense limitations. S corporation shareholders and LLC members may also be eligible for this deduction.
- If you are self-employed and are not covered by a retirement plan, consider setting up an IRA or SEP and fund it by April 15th, 2017 for an "above-the-line" deduction. The advantage of these is that you have an extended period during which to set up an account to fund your retirement and still receive the deduction for 2016. Other retirement plans may also be available.

- If you are self-employed and use the cash basis of accounting, consider postponing year-end billing to later this month or even early 2017. This will delay collections to 2017, making them taxable in that year. You may also want to consider accelerating any planned expenses into 2016, including capital expenditures. It is important to make sure these strategies are not counter-productive for business reasons; postponing the tax impact may not be worthwhile.

In addition to the above strategies, following are a few changes that went into effect for 2016:

- The personal exemption for a taxpayer and their dependents is rising from $4,000 to $4,050.
- If your filing status is head-of-household, the standard deduction is changing from $9,250 to $9,300. The deduction for all the other filing statuses will stay the same as in 2015.
- 2016 will be the last year that the higher education expense deduction can be claimed. This deduction is up to $4,000 for taxpayers who have modified adjusted gross income (AGI) below $65,000 ($130,000 for joint returns). It is $2,000 for taxpayers who have modified AGI exceeding $65,000 ($130,000 for joint returns) and there is no deduction allowed for taxpayers who have modified AGI exceeding $80,000 ($160,000 for joint returns).
- There have been some changes to Health Savings Accounts (HSAs):
    - Maximum-out-of-pocket expenses are increased for self-only coverage from $6,450 to $6,550 and for family coverage from $12,900 to $13,100.
    - The maximum contribution to HSA will stay the same at $3,350 for self-only coverage, but it has increased for family coverage from $6,650 to $6,750
- Some vehicle mileage rates changed:
    - Business mileage rate dropped from 57.5 cents in 2015 to 54 cents for 2016
    - Medical and moving mileage rate dropped from 23 cents in 2015 to 19 cents for 2016
    - The charitable mileage rate will stay the same at 14 cents in 2016 as in 2015.
- The penalty for failing to carry qualified health care coverage increased for 2016. The penalty will be the <u>greater of</u>:
    - $695 per uninsured adult plus $347.50 per uninsured person under the age of 18 in the household, with a maximum penalty of $2,085 OR
    - 2.5% of the taxpayer's household income for the current year that is more than the income threshold amount required for filing a return.
- The medical deduction floor of 7.5% of AGI for taxpayers age 65 and older will increase to 10% after 2016. If this applies to you and you anticipate incurring medical expenses in the near future, you may want to incur these before the end of the year to maximize the deduction.

- The characterization of private mortgage insurance (PMI) as qualified residence interest for a tax deduction will no longer be available after 2016. The elimination of this deduction could be one more reason to consider refinancing your home to eliminate PMI.

Lastly, we want to briefly comment on President-elect Donald Trump's tax plans. While it is premature to weigh in on the likelihood of any changes, Mr. Trump has consistently stated his plans to lower individual and business income tax rates. If you believe that these lower tax rates could be implemented as early as 2017, you may want to defer any income that you can to 2017 and accelerate any deductions into 2016. This would result in 2017's taxable income being higher, but possibly being subject to lower rates.

We understand that every taxpayer's situation is different. At JPS, we're prepared to assist you in navigating the ever-changing tax landscape.

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