PAUL H. BURGESS, ATTORNEY-C.P.A.

525 SOUTH MAIN, SUITE 800/TULSA, OKLAHOMA 74103-4511 (918) 599-7755 VOL. 40 NOVEMBER 2017

Tax & Financial Newsletter from the "Power of the Dual View"

The tax laws may be changing. The House and Senate have different proposals, but both face strong headwinds before becoming tax law. For example, each plan increases taxes for those earning from around $150,000 to about $350,000. Estimates are 13,000,000 taxpayers would face a tax increase. That is a large voting block that can persuade legislative votes. The tax plans further increases the national debt, plus the tax savings highly favor upper-end taxpayers. Thus, my opinion is the current tax proposals will change considerably prior to passing.

Nevertheless, year-end tax planning should take the proposals into consideration while pursuing the tried-and-true year-end strategies. This Tax Newsletter lists those strategies including the five-step process to saving income taxes. The five steps are: (1) Exclude from taxation the income and gains that you can; (2) Defer the income that you must report; (3) Reduce the reported income with deductions; (4) Pay taxes on the rest; and (5) Pay on the latest date possible without incurring penalties and interest.

Business Tax Tips!

√ ***Year-end Business Asset Purchase:*** Buying assets at the end of the year can certainly save taxes. However, acquiring assets merely for the tax benefits is questionable. Use the four rules of thumb below as a guide:

(1) November and December purchases typically make sense if the assets are going to be replaced in the following year anyway.

(2) Especially for longer term equipment, saving taxes now may be worth it for assets that will be replaced in over a year, but less than two.

(3) Tax savings from year-end purchases that increase efficiencies, expand needed capacity, or improve safety are usually good moves.

(4) Asset purchases that reduce 2017 taxes typically reduce 2018 estimated tax payments.

√ ***Bonus Depreciation Percentages:*** Currently, 2017 bonus is 50% of the cost of the asset. Bonus declines to 40% and 30% in 2018 and 2019 respectively.

√ ***Bonus Depreciation & the New Tax Proposals:*** Current versions of the tax proposals contemplate 100% Bonus depreciation for business assets purchased after September 27, 2017.

√ ***§179 Expense Election:*** For 2017 a business can 100% expense *up to* $510,000 of eligible business assets. The deduction starts phasing out when a taxpayer purchases over $2,030,000 of equipment. For subsequent years the dollar thresholds increase for inflation.

√ ***More on Bonus and §179:*** (1) Real property is not eligible for Bonus or §179, subject to small exceptions for certain leasehold, restaurant, and retail building costs; (2) Used property is typically not

eligible for Bonus; (3) New and used property are eligible for §179; (4) Bonus does not have a maximum fixed dollar limit, so it can create or increase an NOL; (5) §179 is limited to taxable income, thus no NOLs.

√ ***Tax Basis:*** Make sure you have tax basis in all your partnerships, LLCs, and S corporations to deduct any losses. Increasing your tax basis can be accomplished by several methods including loans and capital investments.

√ ***Active Participation:*** Step up your level of participation in partnerships, S corporations, or LLCs to qualify as an "active participant" for flow-through entities reporting losses.

√ ***Deduct Expiring Tax Credits:*** 2016 was the last year for many tax credits. If those credits were not used in 2016, some of those unused credits can be deducted in 2017. The Indian Employment Credit in particular.

√ ***Business Losses:*** You are not in business to generate losses, but they do happen. This is a list of possible business loss deductions:

1. Business Bad Debts
2. Casualty and Theft losses
3. Capital Loss/Worthless Investments
4. Losses on the sale of Business Assets

Sometimes it can be difficult to ascertain what year a business or investment loss should be written off. The general rule is to deduct the loss in the earliest year possible.

√ **Payment by Check:** Cash basis businesses can date checks before the end of the year and mail them right before January 1, 2018 to obtain a 2017 deduction.

√ ***Pre-Paid Expenses & the 12 Month Rule:*** A cash basis business can typically deduct any amounts paid for a right or benefit that does not extend beyond 12 months after the date of the payment. Thus, a business can pre-pay expenses in December 2017 that are for 2018. For example, pre-paying rent and leases can yield sizable deductions.

√ ***Home Office Deduction:*** A home office deduction is a good deduction for small businesses or an employee working from home. Do not pass it up because of the perception it is "audit bait." A typical home office deduction is about $2,000 to $5,000. The IRS allows an easy "safe-harbor" home office deduction of up to $1,500 a year.

√ ***Pension Plans:*** Set up pension plans before year-end and fund those plans. In many cases if a plan is "set up" by December 31, you can contribute to the plan as late as October 15, 2018 for a 2017 tax deduction. A small employer can claim up to a $500 credit for administration costs for pension plans.

√ ***Deferring Income to 2018:*** Deferring income is an excellent method to slow down taxes. It can decrease 2017 taxes and many times reduce 2018 estimated tax payments. Some of the ways to defer income include: (1) electing the cash method of accounting versus the accrual method of accounting; (2) delay year-end billing to clients so that payments are not received until 2018; (3) take advantage of §1031 like-kind of exchanges for real estate; (4) electing the installment method of accounting; and, (5) delay selling gain assets until 2018.

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Individual Tax Tips!

√ ***December W-2 Withholdings:*** Avoid underpayment of estimated tax payment penalties by increasing your withholdings from your December paychecks.

√ ***State Tax Payments:*** Consider paying in December 2017 your state estimated tax payment(s) that is (are) due in January 2018 for a 2017 deduction. In fact, paying all your 2017 state liability by the year-end may be beneficial. This strategy can be especially advantageous if you have a large 2017 increase in income. Be careful though. At times phase out rules and the alternative minimum tax may mitigate the advantages of paying state income taxes early.

√ ***State & Local Taxes and the New Tax Law Proposals.*** The new tax law proposals are calling for eliminating the deduction for state income taxes and curtailing the deduction for real property taxes. Thus, paying state income and real property taxes early may be beneficial.

√ ***Employer Flexible Spending Accounts (FSAs).*** Increase the amount you set aside for next in in your FSA account if you set aside too little for 2017.

√ ***Health Saving Accounts (HSAs).*** If you become eligible in December 2017 to make HSA contributions, you can contribute a full year's worth by the end of 2017.

√ ***Maximize Pension & IRA Contributions:*** Increase your retirement plan contributions to take advantage of the maximum write-offs. For 2017: (1) the §401(k) contribution limit is $18,000, and if age 50+ an additional $6,000 is allowable; (2) the Simple Plan limits are $12,500, $3,000 respectively; (3) the IRA limits are $5,500 and $1,000 respectively; and (4) and be sure to maximize your contributions prior to year-end to take advantage of any employer matching.

√ ***Achieving a Better Life Experience (ABLE) Accounts:*** This is a savings account for individuals with disabilities and their families. For 2017, taxpayers can contribute up to $14,000. Earnings are not taxable and distributions are tax-free if used to pay the beneficiary's qualified disability expenses.

√ ***Sale of Loss Entities:*** Dispose of your interests in those flow-through entities in which you have "suspended" loss carryforwards.

√ ***Accelerating Income into 2017:*** If you are expecting a higher tax bracket next year or are in an unusually low bracket this year, consider accelerating income. Acceleration methods include: (1) selling gain assets before year-end; (2) taking distributions from pension plans; (3) converting a Roth IRA to a Traditional IRA; (4) electing out of the installment method of accounting; (7) settling lawsuits and insurance claims prior to year-end; and, (6) elect slower depreciation methods.

√ ***Charitable Contributions:*** Consider gifting appreciated property, typically publicly traded stock, to a charitable organization for a deduction equal to its fair market value without having to report the gain. Also, if you are short on cash, a 2017 charitable tax deduction is

possible by charging the contribution on a credit card and paying for it in 2018.

√ ***Maximize your Non-Cash Charitable Contributions:*** See our October 2016 Newsletter on how to maximize tax savings for donations of household goods.

√ ***Single and Head of Household:*** If you are single and assist your parents financially, make sure you meet the support level test to file head of household instead of single.

√ ***Oklahoma Taxes:*** A good tax advisor pays close attention to Oklahoma state income taxes to make sure all the state tax benefits are claimed. Oklahoma has extensive state tax breaks that are not applicable to a federal return.

√ ***Lower College Tuition by 5%:*** Take advantage of the Oklahoma §529 plans now by contributing to the plan in December, 2017 for January, 2018 college costs.

Investment Tax Tips!

√ ***Short-Term vs. Long-Term Capital Gains:*** Capital gains on property held one year or less (ST) are taxed as high as 50%. If held over a year (LT) capital gains are taxed at about half as much. For taxpayers not in the highest tax brackets, the tax rate for LT capital gains can be as low as zero!

√ ***Defer the Sale:*** If you have a borderline holding period, consider holding the asset a little longer than a year to take advantage of the favorable LT capital gains rates.

√ ***Offset Gains*****:** Consider selling capital assets that will generate a loss to offset any capital gains recognized earlier in the year. But, be careful not to waste the benefits of LT capital gains with ST capital losses.

√ ***Avoid Fluctuations:*** Realizing net capital gains in 2017 and then suffering net capital losses in 2018 increases the probability of wasting deductions. Thus, a good tax strategy is to try to realize stock losses in years with stock gains.

√ ***Dividend Taxes:*** Most stock dividends are taxed at LT preferential rates. Thus, dividend paying stocks, and those stocks held in mutual funds, are tax advantageous investments.

√ ***Oklahoma Capital Gain Exclusion:*** If you have appreciated Oklahoma real property or own stock, partnership interest or LLC membership interests in companies that are located primarily in Oklahoma, the capital gain, under many circumstances, can be totally excluded from Oklahoma taxation.

√ ***Gift Appreciated Stock:*** One of the best tax savings strategies can be for a parent to gift appreciated stock to their lower tax bracket adult child.

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