Dear Clients and Friends,

Amid the hustle and bustle the holidays bring, we want to wish you a joyous and meaningful season. We would like to take the opportunity to share with you some tactics to consider before year-end.

As you know, Congress is currently considering tax reform, which would be effective for 2018 and later years. The proposed tax bills, which have originated in both the House and the Senate, are currently winding through various Committees and are subject to change on a daily basis.

Generally speaking, both bills provide lower tax rates for most, but not all, individuals and businesses. Various deductions, such as sales taxes, state income taxes, medical expenses, investment fees, personal exemptions, and mortgage interest expense may be limited or eliminated entirely, while the standard deduction is significantly increased. Alternative minimum tax (AMT) may be eliminated. Deductible retirement plan contributions may be severely curtailed. Estate and gift tax exemptions may be significantly increased, and there is talk of once again eliminating the estate tax!

We have learned through <u>many</u> years of experience that it is not possible to effectively plan based on proposed tax bills! We have no way of knowing what the final outcome in Congress will be, but it does appear that traditional strategies, such as deferring income into 2018, and accelerating deductions into 2017, could be made even more beneficial.

We do know the tax law for 2017! Therefore, here are some strategies you may want to consider, with any relevance to potential tax reform detailed below as applicable:

- ✓ **Defer Income/Accelerate Expenses** – The uncertainty about tax reform makes it important to focus on time-honored tax planning as we approach year-end. A tried-and-true approach includes deferring income such as bonuses, consulting income, or self-employment income *if using the cash-basis accounting method.* Under the same premise, accelerating business and some itemized deductions into 2017 may provide a benefit. If tax reform does end up reducing tax rates starting in 2018, the deferral or deduction should give you an even better benefit when used against 2017's higher rates.

- ✓ **Maximize Your Retirement Contributions** – If you are eligible to participate in a retirement plan, you may want to adjust your contribution to maximize this benefit before year-end. The retirement contributions will reduce your available cash, but is better spent going into your retirement pocket than used to pay taxes to the IRS; and if you are an employee, you may be eligible for an employer match. Employees can contribute $18,000 per year for a traditional 401(k) plan and a $6,000 catch-up contribution if age 50 or older. Various proposed bills have significantly reduced the amount of contributions to retirement plans that can be deducted against tax; if such proposals are signed into law, 2017 may be your last year for significant tax benefits for at least a while.

- ✓ **Remember to Take Required Minimum Distributions** – If you are age 70 ½ or older, you are generally required to take minimum distributions from your IRA or 401(k) plans. Note that the year you turn 70 ½ brings special planning opportunities to either recognize or defer the minimum distributions.

- For charitably minded folks 70 ½ and older, charitable donations up to $100,000 can be made directly from your IRA. The contributions count against your minimum required distributions and are excluded from your income. Special rules may apply to these transfers and we would be happy to discuss your situation before you make these gifts.

- Did you inherit an IRA during 2017? If so, there may be planning opportunities to spread the required minimum distributions over your lifetime. Note that the recipient of an inherited IRA <u>must</u> begin minimum distributions starting the year following death.

✓ **Consider Gift Tax Planning** – If you are planning to make gifts to family members or friends, you can exclude gifts of up to $14,000 made to each individual. We will keep a close eye on proposed changes to and potential repeal of the federal estate tax. Also, for our Washington state clients, there is an estate tax but no gift tax. It may be worthwhile to consider whether additional gifts make sense, particularly as tax reform takes shape. A word of caution with regard to the gifting of non-cash assets, such as stock or real estate – gift recipients assume the tax cost basis of the original owner; there is no step up to fair market value at the time of the gift! Inherited assets do receive a step up, so the elimination of federal asset may create an entirely new perspective around lifetime gifting.

✓ **Help Others through Charitable Contributions** – Consider making year-end gifts to your favorite charities. The donations help those in need and may reduce your tax bill as well. Just remember that you need a written acknowledgement from the charity for gifts of $250 or more, or gifts of $75 or more if you receive goods or services in return.

- Tip: You can transfer appreciated publicly-traded stock you have held more than one year to charity before December 31 and take a charitable deduction for the full market value of the stock on the date of transfer – without having to report any capital gain income. Please note the stock must be <u>received</u> by the charity's investment account by December 31, so call your investment manager soon if this strategy appeals to you.

- Tip: At this time, it appears charitable contributions will still be allowed under all current tax proposals. However, it may be beneficial to fund a donor advised fund (DAF) with a substantial contribution before the end of 2017. Doing so could provide greater tax benefits if rates do decrease next year, and would ensure your overall tax deduction.

✓ **Watch out for Incentive Stock Options** – Incentive stock options are resurging in popularity. In general, the grant and exercise of ISOs have no regular tax consequences. However, the exercise and hold of an ISO does have alternative minimum tax consequences. If AMT is eliminated next year, it could make more sense to delay exercising. If you are considering the exercise of ISOs before year-end, please let us know so we can model out the tax impact. As with all such decisions, let the economics, not the income tax result, rule!

✓ **Make Sure Withholding and Estimated Payments are On Track** – Taxes are due to the IRS throughout the year via estimated tax payments or withholding. In certain instances, taxpayers can make up a shortfall in estimated payments through increased year-end withholding. In any case, the end of the year provides a great time to let us help you estimate your taxes due by April 15, 2018, to ensure adequate cash is on hand.

- ✓ **Review Your Investments** – Now is a great time to review your investments to make adjustments in line with the direction of the market. Be sure to review your portfolio to make sure it is adequately balanced and includes investments that help to manage your risk in the event of any potential downturns. You can review your portfolio to sell investments and lock-in capital losses where it makes sense and eliminate the investments from your portfolio before year-end dividends are paid.

- ✓ **Business Expenses** – If you are considering the need for new equipment, or have otherwise deductible expenses you can incur or pay by year-end, consider doing so to secure the deduction in 2017, especially if you expect your tax rate to be higher this year than in 2018. Remember any equipment purchased must actually be placed in service before year-end to secure depreciation deductions. Several tax proposals include significant first year write offs for capital improvements, so you may want to delay such purchases into December.

- ✓ **Electric Vehicles** – Various tax proposals eliminate the credit for the purchase of new electric vehicles. If you've been on the fence, you may want to consider finalizing a deal before year-end!

- ✓ **Let Us Help With the "What Ifs"** – Curious about the tax impact of selling specific investments or how the Washington Estate Tax will affect your family even if the Federal Estate Tax is no longer an issue? Just ask. We would love to talk with you and help prepare projections to model out various scenarios.

- ✓ **Pass It On** – If you are happy with our services, please let others know. We offer a $50 discount from your invoice for your referrals. If there is something we can do better, please let us know that too!

Between the time we wrote this letter and the time you are reading it, the details of Congress's tax proposals have shifted. Be assured you will be hearing from us if and when a tax reform bill is signed into law! In the meantime, give us a call in December as you make economic decisions that may affect your 2017 tax liability.

Thank you for your business. We appreciate you!

*Hellam Varon & Co., Inc.*