vista

Year-end Planning 2017

Looking Back on 2017

As 2017 draws to a close, there is still time to reduce your 2017 tax bill and plan ahead for 2018. This letter highlights several potential year-end planning opportunities for you to consider, most of which have to do with income taxes. We would be happy to discuss specific strategies and how they apply to you.

As you may know, the government is aiming to significantly alter the tax code. Although the proposed legislation is likely to be changed before enactment, this a good time to begin discussing and planning for tax reform.

We're writing this under the assumption that nothing significant will change in the law that will affect 2017's taxes. That said, if changes are made that will affect your 2018 taxes, it may become more important to do multi-year tax planning which may prompt taking action before year-end. If the law changes, we will update you with that information and adapt our tax planning tips as the details become clear. We have noted in each section where significant changes have been proposed using current information.

Income Taxes

Typically, we would say to “accelerate deductions and defer income". However, depending on how the new tax legislation progresses in the coming weeks, it may make sense to accelerate income into 2017. For now, however, we’ll stick with the idea to defer income and accelerate deductions. Here are some ideas:

Contribute the legal maximum to retirement plans for 2017:

Traditional, Roth, or Custodial IRA: $5,500 ($6,500 if you're 50 or older).

SEP-IRA, Qualified Retirement Plans: Lesser of $54,000 or 25 percent of compensation.

401(k): Salary deferral of $18,000 ($24,000 if you're 50 or older).

Take advantage of any employer tax benefits offered

Including Health Spending Accounts (HSA), Flexible Spending Accounts (FSA), and Dependent Care Benefits.

Contribute to education funding plans

Make contributions to 529 education funding plans because they efficiently shelter income on college accounts. We'd be happy to help you set up accounts or determine how much you should add to them.

Utilize education credits

Generate income or capital gains for any college-level children before year-end to utilize non-refundable education credits, if they are available.

Social Security benefits for December will increase in 2018 due to inflation

For family members with lower income who are subject to Social Security tax, accelerate income into 2017 to possibly reduce Social Security taxes next year. The limit on earnings subject to Social Security taxes will increase from $127,200 in 2017 to $128,700 in 2018. Note that Social Security benefits for December (which are paid in January) will increase by 2% in 2018 for inflation.

Bunch itemized deductions into certain years

Properly time your state income and real estate taxes, large charitable contributions, and non-life-threatening medical expenses, possibly saving you taxes if bunched in certain years. Since your itemized deductions may be limited due to your income, multi-year tax planning may make sense to determine how much to pay of the items subject to the limitation. By bunching certain deductions in certain years, you may be able to clear the limitation amounts and reduce your taxes.

Note that under the plan now working its way through Congress, deduction of state and local taxes could be largely curtailed or eliminated for 2018. This may make it advantageous to pay all of your real estate taxes in 2017 instead of waiting to make the second installment in April. However, this will also depend on your positioning with the Alternative Minimum Tax. Given the complexity, it may be important to do some year-end tax calculations to make the right decision.

Review any vested stock options

Review any vested stock options for year-end tax planning opportunities.

Establish a Donor Advised Fund

Establish or add to a Donor Advised Fund (DAF) if you're feeling charitably inclined and your income is high in 2017. We’ll be happy to discuss this with you before the end of the year. DAF's allow you to bunch charitable contributions into one tax year (maximizing the charitable deduction) while spreading the distributions to charities over future years.

Make charitable contributions using appreciated assets

Make your charitable contributions with long term appreciated assets whenever possible, instead of using cash. Giving securities directly to a charity (or Donor Advised Fund) not only avoids capital gains taxes but also helps minimize your Adjusted Gross Income (AGI).

Accelerate business deductions

For self-employed individuals, accelerate business deductions into 2017 to defer net taxable income. Note that the current legislative proposals could significantly increase certain business deductions next year.

Roth IRA conversion

Consider a Roth IRA conversion, if your income is lower this year, to benefit from a lower tax rate.

Planning a move out of state?

If you're moving out of state, plan the timing of certain transactions around your move date to be the most tax advantageous.

Make qualified charitable distributions (QCDs) from your IRA

Make Qualified Charitable Distributions (QCDs) from your IRA. By making distributions of up to $100,000 directly from your IRA to a charity, you avoid including the IRA distribution in your income. This helps to reduce your AGI which is used in many limitations, lowering your taxes and sometimes, if applicable, Medicare premiums.

Estate and Gift Taxes

Congress is currently proposing to completely eliminate the estate tax by 2024, or significantly increasing the exemption amount. Under both the House and Senate bills, however, the gift tax is kept in place (with a $10 million exclusion). For now, here are some planning points that apply under current law.

Annual gift tax exclusion

Gift up to a total of $14,000 tax free to each of your loved ones in 2017 using the annual gift tax exclusion. If you are making gifts with a spouse, you can gift up to $28,000 per recipient by combining your exclusions. The annual gift tax exclusion is being increased to $15,000 for 2018.

Lifetime gift and estate tax exemption

Consider utilizing your lifetime gift and estate tax exemption, which will increase from $5.49 million in 2017 to $5.6 million in 2018. If you've previously capped-out this exemption, you'll be able to use the additional $110,000 for gifts in 2018.

Some Important Dates

December 25-26, 2017:

- Vista offices will be closed for the Christmas holiday.

December 29, 2017:

- Note that this is the last business day of the year, so transactions for 2017 must be completed on this day.
- Vista offices will close early for the New Year's holiday.

December 31, 2017:

- Deadline to take Required Minimum Distributions from IRAs if you're over 70 ½. If you turned 70 ½ in 2017, we should discuss your choices. We're currently reviewing all accounts carefully to make sure that all of our clients are in compliance.
- Complete gifts to individuals for 2017, including 529 plan contributions. The maximum exclusion this year is $14,000 per gift, per person.
- Complete charitable donations for 2017.
- Accelerate/defer income and deductions for 2017 to minimize Alternative Minimum Tax (AMT), Net Investment Income Tax (NIIT) and overall tax liability.
- Open new qualified retirement plan accounts for business owners.

January 1, 2018:

- Vista offices will be closed for the New Year's holiday.

January 16, 2018:

- Fourth quarter 2017 estimated taxes are due.

April 17, 2018:

- IRA contributions are due.
- Note: SEP-IRA contributions can be deposited later than April 17th, if the related tax return is extended.
- If any excess contributions were made to IRA or 401(k) plans, these contributions should be withdrawn to avoid excise penalties.

Thanks

Serving your investment and financial planning needs is our highest priority, and this letter offers just a sample of year-end opportunities. We hope it spurs some ideas and perhaps a conversation about how we can assist you in minimizing taxes and preserving your wealth. As always, please discuss any tax or other financial planning ideas thoroughly with us as well as your other advisors before taking action.

We welcome any questions or comments you may have and we send you and your family our warmest wishes for a healthy and prosperous 2018.

Your Vista Wealth Management Team

Additional Disclosures

A copy of Vista Wealth Management's current written disclosure statement (Form ADV, Part 2A) discussing Vista's business operations, services, and fees is available upon written request. Individual investment decisions should be made on the basis of each investor's financial condition, suitability, and risk tolerance. Investments may be volatile and can involve the loss of principal. Past performance is no guarantee of future returns.

Advisory services offered through Vista Wealth Management LLC, a federally registered investment advisor.

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