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The end of the calendar year presents a unique opportunity to look at your overall personal financial situation. Before we enter 2018, it is important to explore what aspects of your financial plan may need to be revisited in the near-term and what proactive planning opportunities exist. Weaving together all areas of your personal finances, like income and estate tax, retirement, risk management, investments and cash flow is one of the key ways we provide value to you as your trusted adviser. To help get the conversation started, below are some items we can help you think through.

Income Tax Planning – Congress is currently working on a massive tax reform proposal that could change many aspects of income tax law. While we don't know what the final version of the bill will look like or if anything will get passed at all, we do know there are income tax planning opportunities under the current law. Strategies like maximizing your retirement plan contributions, tax loss harvesting in portfolios and making charitable contributions can all help reduce current and future tax bills. It is also a good decision to review your current year tax projection based on your income and deductions year to date. This exercise could provide even more value should we learn more concrete details about changes to the income tax law and when they would take effect.

The Trump Administration and select members of Congress have released a "unified framework" for tax reform. The document provides more detail than a number of other tax reform documents that have emerged from the Administration over the past few months, but it still leaves many specifics to be worked out by the tax-writing committees (i.e. the House Ways and Means Committee and the Senate Finance Committee).

Plan provisions affecting individuals would:

- Increase the standard deduction to $24,000 for married taxpayers filing jointly, and $12,000 for single filers;
- Eliminate the personal exemption and the additional standard deductions for older/blind taxpayers;
- Reduce the number of tax brackets from seven to three: 12%, 25%, and 35%;
- Increase the child tax credit;
- Repeal the individual alternative minimum tax;
- Largely eliminate itemized deductions, but retain the home mortgage interest and charitable contribution deductions; and
- Repeal both the estate tax and the generation-skipping transfer tax.

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Plan provisions affecting <u>businesses</u> would:

- Provide a maximum 25% tax rate for "small" and family-owned businesses conducted as sole proprietorships, partnerships and S corporations;
- Reduce the corporate tax rate to 20% (down from the current top rate of 35%);
- Provide full expensing for five years;
- Partially limit the deduction for net interest expense incurred by C corporations;
- Repeal most deductions and credits, but retain the research and low-income housing credits;
- Modernize special tax rules that apply to certain industries and sectors;
- Provide a 100% exemption for dividends from foreign subsidiaries; and
- To protect the U.S. tax base, tax the foreign profits of U.S. multinational corporations at a reduced rate and on a global basis.

<u>AMT – Alternative Minimum Tax</u>

The alternative minimum tax (AMT) applies to many taxpayers, requiring them to add back certain non-taxable income and deductions they've taken. You're allowed an exemption that somewhat reduces the AMT's effects. That exemption rose in 2017 to $54,300 for single filers and $84,500 for married couples filing jointly. Talk to us about other ways to minimize your exposure to the AMT using techniques such as income acceleration or delay.

<u>Estate Planning</u> – Another aspect of the tax reform proposals is significant changes to estate tax law. Regardless of these potential changes, it has always been important to think through both the tax and non-tax considerations of what will happen to your assets after you are gone. Examining a flowchart of your current estate plan can help you visualize what would happen to each of your assets and how the current estate tax law will impact you. It's also important that your estate planning documents are up to date – not just your will, but also your power of attorney, health care documents, and any trust agreements. You should also check the beneficiary designations on each of your retirement accounts to be sure they are in line with your desires. If you have recently been through a significant life event such as marriage, divorce or the death of a spouse, this is especially important right now.

<u>Investment Strategy</u>– Virtually all areas of the stock market have seen impressive performance this year, continuing a trend of positive returns that has persisted since the market bottom in March of 2009. The markets have also been remarkably calm this year as volatility has reached some of the lowest levels seen in years. This has led many to fear we might be in the calm before the storm, but nobody knows exactly how long that calm will last. Since we know it can't last forever, it is important to be prepared for a drop. Market declines are a natural part of investing, and understanding the importance of maintaining discipline during these times could make it easier to live through the next one.

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Strong stock market returns also might have driven your asset allocation out of alignment with what is appropriate given your risk tolerance, return requirements and time horizon. Regular portfolio rebalancing will allow you to maintain the appropriate amount of risk in your portfolio. If you are retired and living off your portfolio, this rebalancing could include maintaining an appropriate cash reserve to cover living expenses for a certain period of time. We have seen the Federal Reserve increasing interest rates lately with plans to continue doing so. As interest rates rise, the value of bonds will decrease, but the higher yields in the long run will be good for investors. For borrowers, rising interest rates will ultimately mean the end of inexpensive borrowing. Given this change, it is prudent to review all your debt and consider refinancing to lock in low rates now. While we are on the issue of credit, with the magnitude of the Equifax credit breach, have you taken steps to protect your credit? It is also a good idea to check your credit history periodically.

Charitable Giving – We see an uptick in client interest in charitable giving at the end of the year, but for many of our clients, charitable giving plays a key role in their lives year-round. There are many ways to be tax efficient when making charitable gifts. For example, donating appreciated stock could make sense in order to avoid paying capital gains taxes. Further, if you are in a higher tax bracket this year than you might be next year, it could be beneficial to accelerate next year's gifts to this year. If the numbers are large enough, you might even consider a private foundation or donor advised fund for your charitable giving. Estate planning should be carefully interwoven with your charitable giving plans.

Retirement Planning – The concept of retirement is changing, and different people define it in different ways. The first step in planning for retirement is to think through what you envision for your own future. Whether you expect a typical full retirement or a career change into a more fulfilling field, determining an appropriate balance between spending and saving, both now and in the future is important. There are many options available for saving for retirement, but we can help you understand which option is best for you.

Cash Flow Planning – Whether you are retired or not, it is important to closely monitor your spending habits. The end of the year presents a fantastic opportunity to review the current year's spending and plan for next year. If you are retired, it is particularly important to maintain a tax efficient withdrawal strategy to cover your spending needs. If you have not yet reached age 70.5, it is prudent to ensure you are making tax-efficient withdrawal decisions. If you are over age 70.5 make sure you are taking your required minimum distributions because the penalties can be significant if you don't. Also, there are many Social Security claiming strategies available, so we can help you take a look at which strategy is best for you.

Risk Management – The recent hurricanes in Texas, Florida, and Puerto Rico, along with the wildfires in California provide a powerful reminder to make sure property insurance coverage is appropriate and up to date and covers the risks you face. If you are in one of these disaster areas, there are additional steps

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necessary to recover what you can and explore the tax treatment of casualty losses. Other areas of risk management that may need to be revisited include life and disability insurance. We often find clients are not appropriately covered as a policy review has not been done in some time.

Education Funding – Funding education costs for children or grandchildren is important to many people. While the increase in college costs have slowed some lately, this is still a major expense for most families. It is important to know the many different ways you can save for education to determine the optimal strategy. Often, funding a 529 plan comes with tax benefits, so making contributions before the end of the year is key.

Elder Planning – There are many financial planning elements to consider as you age, and it is important to consider these things before it's too late. Having a plan in place for who will handle your financial affairs should you suffer cognitive decline is critical. Making sure your spouse and/or family understands your plans will help reduce future family conflicts and ensure your wishes are considered.

Tax identity theft is a significant threat

Our firm takes security very seriously, so we want to begin with a reminder that tax identity theft is a growing problem. With fraudsters becoming more sophisticated and large breaches happening so frequently, such as the Equifax incident which affected 143 million American consumers, tax identity theft remains a concern. Unfortunately, it can take many forms, so beware if you:

Receive a notice or letter from the Internal Revenue Service (IRS) regarding a tax return, tax bill or income that doesn't apply to you. It's possible someone has filed a false return using your Social Security number (SSN) to claim a refund or get a job. Though the IRS has made significant improvements to combat tax identity theft, and IRS statistics show almost a 40% drop in the number of fraudulent returns to the IRS since last year, fraudsters are still claiming millions of dollars in illegal refunds.

Get an unsolicited email or other form of communication asking for your bank account number or other financial details or personal information — such as your SSN. The IRS doesn't contact taxpayers using email, text or other social media channels, so it's likely a scammer is trying to steal your confidential information.

Receive a robo call insisting you must call back and settle your tax bill. Your first contact with the IRS will be through official correspondence by mail; they will not call you out of the blue. Also, the IRS does not demand immediate payment over the phone, threaten to arrest you or demand your credit or debit card number or that you use a certain payment method — such as a gift card — to pay your taxes.

If you receive any suspicious communications from the IRS, you can report the contact by filling out this IRS Impersonation Scam Reporting form or calling 800.366.4484. We also urge you to contact our office for advice whenever you receive a communication from the IRS or believe you might be a victim of identity theft.

Make sure you're taking steps to keep your personal financial information safe. Check out these tips from the IRS on how to protect yourself from identity theft. Also, filing your return early can sometimes help prevent tax refund fraud. Contact us so we can help you gather your tax information to file as early as possible.

The Affordable Care Act and your taxes

Perhaps the most talked-about topic in our country right now is the Affordable Care Act (ACA). Repealing the ACA and replacing it has been a recent legislative focus. Taxpayers have many questions about what a final bill will look like, what tax provisions will be included and when the rules will be effective.

Though changes may still occur, the ACA remains law for now, and taxpayers must abide by it. The ACA requires individuals to have minimum essential health insurance coverage. In 2017, the penalty for not having coverage is $695 per uninsured adult ($347.50 per uninsured child under 18), or 2.5% of household income during the filing period, with some penalty caps available.

Don't pay IRS penalties for underpayments

The IRS charges penalties (and interest) if you don't pay the appropriate amount of taxes throughout the year. We can help you calculate your projected income and required quarterly payments – and even adjust your W-2 withholding, if beneficial. Contact our office so we can help you make the required payments to avoid penalties and any surprises come filing season.

Watch out for expired deductions

A few deductions expired at the end of 2016, and unless Congress includes them in any new tax reform legislation, these deductions are no longer available:

Tuition and fees deduction. Though this deduction isn't available, there are other valuable tax benefits to help with higher education expenses. We offer advice on other options, including the Lifetime Learning Credit and the American Opportunity Tax Credit.

Private mortgage insurance (PMI) deduction. PMI, the amount you typically pay when your down payment on your home is below 20%, is no longer deductible.

New rules may affect your business

New laws and regulations could have an impact on how you manage your business or tax planning. Below is a summary of important developments you should be aware of:

In a recent change, businesses must file all Forms W-2 and W-3 and some Forms 1099 with the IRS and the Social Security Administration no later than Jan. 31 in the year following the one to which the forms relate. As a result, forms for 2017 activities must be filed by Jan. 31, 2018. Forms must be postmarked by Jan. 31, 2018 for employees and vendors or independent consultants.

As you're probably aware of from last year, there are new due dates for returns for partnerships, C corporations and several other business returns. For calendar-year partnerships, the new filing date is March 15 and for C corporations, it's April 15. The date for fiscal year C corporations is the 15th of the fourth month following the end of the corporation's calendar year. This is good news. In fact, the CPA profession has long advocated for these changes because they'll minimize tax season complications and delays and make it easier to ensure tax returns are accurate and on time.

Small businesses may benefit from legislation that reset the rules on what kinds of property qualifies for bonus depreciation, because it scopes in "qualified improvement property," a new class of nonresidential real property. At the same time, bonus depreciation has been extended through 2019 (and through 2020 on older transportation property). The new rules allow 50% bonus depreciation through 2017, 40% in 2018 and 30% in 2019.

If your business is a partnership, there's now a greater chance you could face an IRS audit, due to new audit and adjustment rules. Although the change will generally apply to returns for tax year 2018 and later, clients should start planning now to prevent any unexpected consequences down the road. In particular, we recommend reviewing your partnership operating agreement with the new rules in mind. Please don't hesitate to contact us for assistance with identifying what changes might be relevant to your agreement. Also, be aware that even if your business isn't a partnership, you'll want to evaluate the effect these new rules and related agreement changes could have if you have invested in any partnership.

Be sure your retirement planning is up to date

When's the last time you revisited your retirement or succession plan? We recommend you review your situation at least annually and make revisions and adjustments as needed. That includes making the most of the many tax-advantaged retirement saving options for small business owners, some of which allow annual contributions that can be significantly higher than those for other kinds of IRAs. In some cases, you can establish these plans for yourself and also offer them to employees.

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Participants can contribute up to $54,000 to SEP IRAs and solo 401(k)s in 2017 (or 25% of income, whichever is smaller). For a SIMPLE IRA, the 2017 contribution limit is $12,500. In all cases, participants age 50 or older can make catch-up contributions.

The decisions you make each year with your personal finances will have a lasting impact. We hope this letter has begun to generate some insight to areas of your personal finance that need attention. If you are interested, we've posted at our website www.albertcpa.com more detailed tax planning considerations we can help you look at before the end of the year. We are honored to be your trusted advisor and partner. Please contact us at 303-683-7171 or galbert@albertcpa.com when you are ready to talk through year-end planning.

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