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Year-End Planning for 2016

With 2016 nearing an end and a new president set to take office next year, now is the time to consider actions you can still take to maximize your tax savings for the year. There are many options available based on your unique tax situation, but here are a few interesting strategies to consider:

- **Planning for the uncertainty of a new president** – Although it is difficult to predict when and to what extent tax reform will happen, it is expected to be a priority for the president-elect and the Republican-controlled Congress. The general expectation is that rates will be lowered and certain deductions eliminated, with passage of tax reform happening as early as 2017. While it normally makes sense from a tax perspective to defer income and accelerate deductions, such expected changes amplify the importance of this strategy, but with caution if you expect to pay Alternative Minimum Tax (AMT).

- **Donate to the California College Access Tax Credit (CATC) Fund –** The CATC is a credit that is available to individuals and businesses that contribute to the CATC fund. Making a cash donation to the College Access Tax Credit Fund before year-end will not only help fund additional Cal Grants to eligible students, but could mean as much as 78% (versus 53% for donations to other charities) in tax savings for every dollar contributed. Interested donors must submit an application by year-end to get the credit in 2016, so act now if you would like to make a contribution.

- **Accelerate charitable deductions by contributing to a donor-advised fund (DAF) –** Contributing property (such as appreciated securities held for more than one year) to a donor-advised fund by year-end will lock in a tax deduction equal to the fair market value of the property in the year of the gift. Assets are deposited into an investment account where they can grow tax-free until you decide when and to which charities to distribute.

- **Form a qualifying retirement plan before year-end –** As a business owner, you may offset taxable income by contributing to a retirement plan on behalf of yourself and eligible employees. In fact, you're not limited to forming just one plan, which can amplify your pre-tax contributions. Generally, to qualify for a tax deduction in 2016, the retirement plan must be established before year-end, with the exception of IRA and SEP plans which may be set up by the due date of the returns (without extensions).

- **Take advantage of QSBS gain exclusion and/or deferral –** If you have qualified small business stock that you have held for five years or more, you may exclude up to 100% of the gain realized upon disposition if certain requirements are met. Keep in mind, however, that any QSBS gain that does not get excluded is subject to a higher 28% federal tax rate.

Another great option is to defer gain on qualified small business stock held for more than six months by reinvesting the proceeds within 60 days into other qualified small business stock.

- **Exercise ISO and NQSOs tax-free in an AMT break-even scenario –** If you are considering exercising ISOs and/or NQSOs, you may be able to minimize taxes by evaluating your tax situation. If you are considering exercising ISOs before the end of the year and then holding the stock, you may be able to do so tax-free by exercising the ISOs in a year in which you are not in AMT. On the other hand, you may consider exercising NQSOs when AMT is higher than regular tax to take advantage of the lower AMT rates.

- **Partially or completely convert funds from a Traditional IRA to a Roth IRA –** If you are interested in having your retirement assets grow tax-free in a Roth IRA, consider converting funds from a Traditional IRA to a Roth. This may be especially beneficial during a year in which income is significantly lower. Moreover, if your converted assets decline in value after the rollover or tax rates for 2017 are reduced under the new president, you may recharacterize the funds any time before the extended due date of your return to avoid overpaying taxes.

- **Make a Backdoor Roth IRA contribution via conversion of a Traditional IRA –** If you would like to contribute to a Roth IRA but are restricted due to income limitations, you may make nondeductible contributions to a Traditional IRA and then convert to a Roth IRA shortly thereafter. While income limits remain on making direct contributions to a Roth, there are no income limits for a Roth conversion. There are restrictions on the effectiveness of this strategy, so please contact us if you are considering it.

- **Maximize the use of the annual gift exclusion by forming a Pot Trust –** A pot trust allows you to provide for the needs of your children while protecting the funds until the child has reached a certain age. This offers a simple solution to funding family expenses, such as education and health, which is equitably distributed over the course of the child's upbringing. Moreover, a pot trust maximizes the use of your annual gift exclusion through gifting of the trust to multiple children. If desired, the trust may also be set up as a grantor trust, meaning you could pay the tax on the income of the trust rather than the trust using its funds to pay tax.

Before implementing any of the above tax planning strategies, please call us to discuss how they relate to your specific situation and needs.