



## **THE 12 DAYS OF TAX PLANNING**

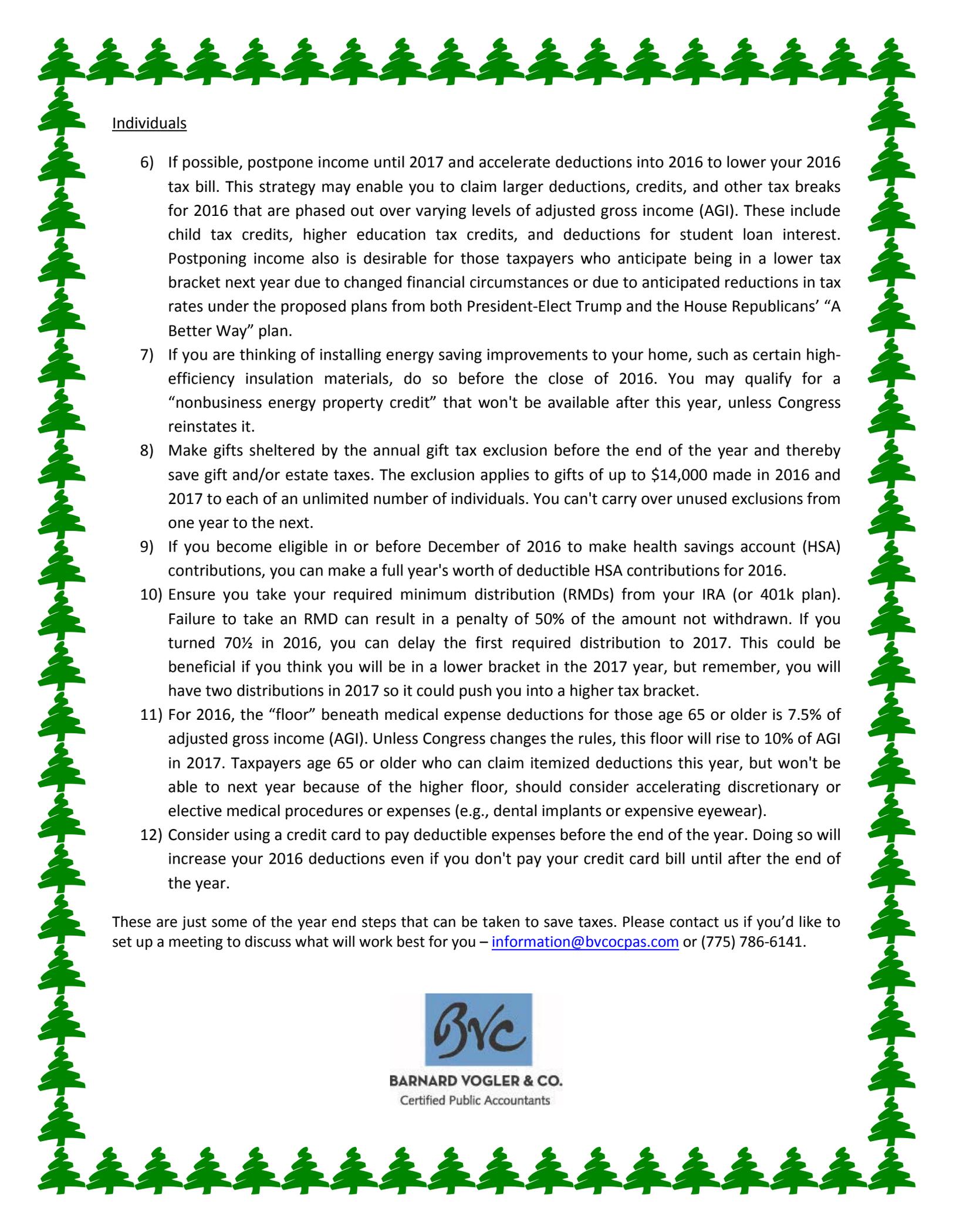
As the year end approaches, it is a good time to think of planning moves that will help lower your tax bill for this year. Planning is particularly challenging this year with the political and economic uncertainty and the possibility that Congress will not act on a number of important tax breaks that will expire at the end of 2016. The following are 12 business and individual strategies to consider:

### Businesses and Business Owners

- 1) Businesses should consider making expenditures that qualify for the business property expensing option. For tax years beginning in 2016, the expensing limit is \$500,000 and the investment ceiling limit is \$2,010,000. Expensing is generally available for most depreciable property (other than buildings), off-the-shelf computer software, and qualified real property—qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property. The expensing deduction is not prorated for the time that the asset is in service during the year.
- 2) Additionally 50% bonus depreciation is still available for 2016 for assets bought and placed in service within this year. This means you can qualify for the full 50% bonus write off even if qualifying assets are in service for only a few days in 2016.
- 3) If your business qualifies for the domestic production activities deduction (DPAD) for its 2016 tax year, consider whether the 50% of W-2 wages limitation on that deduction applies. If it does, consider ways to increase 2016 W-2 income, e.g., by bonuses to owner-shareholders whose compensation is allocable to domestic production gross receipts. Note that the limitation applies to amounts paid with respect to employment in calendar year 2016, even if the business has a fiscal year.
- 4) To reduce 2016 taxable income, consider disposing of a passive activity in 2016 if doing so will allow you to deduct suspended passive activity losses.
- 5) If you own an interest in a partnership or S corporation, consider whether you need to increase your basis in the entity so you can deduct a loss from it for this year.



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## Individuals

- 6) If possible, postpone income until 2017 and accelerate deductions into 2016 to lower your 2016 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2016 that are phased out over varying levels of adjusted gross income (AGI). These include child tax credits, higher education tax credits, and deductions for student loan interest. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances or due to anticipated reductions in tax rates under the proposed plans from both President-Elect Trump and the House Republicans' "A Better Way" plan.
- 7) If you are thinking of installing energy saving improvements to your home, such as certain high-efficiency insulation materials, do so before the close of 2016. You may qualify for a "nonbusiness energy property credit" that won't be available after this year, unless Congress reinstates it.
- 8) Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby save gift and/or estate taxes. The exclusion applies to gifts of up to \$14,000 made in 2016 and 2017 to each of an unlimited number of individuals. You can't carry over unused exclusions from one year to the next.
- 9) If you become eligible in or before December of 2016 to make health savings account (HSA) contributions, you can make a full year's worth of deductible HSA contributions for 2016.
- 10) Ensure you take your required minimum distribution (RMDs) from your IRA (or 401k plan). Failure to take an RMD can result in a penalty of 50% of the amount not withdrawn. If you turned 70½ in 2016, you can delay the first required distribution to 2017. This could be beneficial if you think you will be in a lower bracket in the 2017 year, but remember, you will have two distributions in 2017 so it could push you into a higher tax bracket.
- 11) For 2016, the "floor" beneath medical expense deductions for those age 65 or older is 7.5% of adjusted gross income (AGI). Unless Congress changes the rules, this floor will rise to 10% of AGI in 2017. Taxpayers age 65 or older who can claim itemized deductions this year, but won't be able to next year because of the higher floor, should consider accelerating discretionary or elective medical procedures or expenses (e.g., dental implants or expensive eyewear).
- 12) Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2016 deductions even if you don't pay your credit card bill until after the end of the year.

These are just some of the year end steps that can be taken to save taxes. Please contact us if you'd like to set up a meeting to discuss what will work best for you – [information@bvcocpas.com](mailto:information@bvcocpas.com) or (775) 786-6141.



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