2016 Year-End Planning: A Guide for Investors

We are approaching a fourth year under a tax environment that offers higher estate and gift tax exclusions, and relatively low estate and gift tax rates. As a result, income taxes are the most pressing concern for most taxpayers. This planning guide summarizes the 2016 tax landscape and offers strategies for you to consider that can help minimize your overall tax burden. We encourage you to meet with your relationship manager to discuss these considerations, review your overall financial and estate plan, ensure your investment portfolio is aligned with your goals, and take timely action before the end of the year.

TAX MANAGEMENT: THE CURRENT LANDSCAPE

Summary of 2016 tax rates and exclusions

Top income tax rate	39.6%
Top capital gains rate	20%
Top qualified dividends rate	20%
Surtax on unearned net investment income	3.8%
Top estate and gift tax rate	40%
Combined estate and gift tax exclusion	$5,450,000
Generation–skipping transfer (GST) tax exemption	$5,450,000
GST tax rate	40%
Annual gift tax exclusion amount	$14,000
Annual gift tax exclusion to non-citizen spouse	$148,000

Income taxes, capital gains, and qualified dividends

- **The top (or marginal) ordinary income tax rate** is 39.6 percent for taxpayers with taxable income in excess of the following amounts:

Married couples filing jointly and surviving spouses	$466,950
Single individuals filing as head of household	$441,000
Single individuals	$415,050
Married couples filing separately	$233,475
Estates and trusts	$12,400

- **Long-term capital gains** are 20 percent for those in the highest marginal ordinary income tax brackets.
- **The tax on qualified dividends** is 20 percent for those in the highest marginal ordinary income tax brackets. Depending upon their income level, taxpayers in lower brackets can expect to pay either 0 or 15 percent on long-term capital gains and qualified dividends.
- **Personal exemptions and itemized deductions** will be (wholly or partially) phased-out for higher-income earners (generally those in the top brackets), effectively increasing their income tax bill.

The 3.8 percent surtax on unearned net investment income

This surtax is applied to certain types of unearned income for individuals, trusts, and estates with income above specific thresholds ($250,000 for married couples filing jointly, $200,000 for single and head of household filers, and $125,000 for married couples filing separately). Note that these thresholds for individuals are not adjusted for inflation.

For individuals, the surtax is imposed on the lesser of net investment income for the tax year or the amount by which the individual's modified adjusted gross income (MAGI) exceeds the threshold amount. For trusts and estates, the surtax is imposed on the lesser of the undistributed net investment income for the tax year or the excess of adjusted gross income over the dollar amount at which the highest tax bracket begins ($12,400 in 2016). This threshold amount for trusts and estates is effectively adjusted by inflation since it is tied to the highest bracket.

Net investment income includes interest, dividends, royalties, rents, gross income from a trade or business involving passive activities, and net gain from disposition of property (other than property held in a trade or business).

It generally does not include active trade or business income, gains on a sale of an active interest in a partnership or S corporation, distributions from IRAs or qualified retirement plans, income from tax-exempt municipal bonds, income taken into account for self-employment tax purposes, or certain capital gains from the sale of a personal residence excluded from income.

The Alternative Minimum Tax (AMT)

The AMT exemption for 2016 is $53,900 for unmarried individuals who are not filing as a surviving spouse and $83,800 for joint filers and surviving spouses. Married taxpayers filing separate returns have a $41,900 AMT exemption amount. These exemptions are subject to phase-out beginning at $159,700 for joint filers and surviving spouses, $119,700 for single taxpayers, and $79,850 for married individuals filing separately.

Estate, gift, and generation-skipping transfer (GST) taxes

Gift and estate tax exclusions are permanent, unified, and adjusted for inflation. This year, the applicable exclusion amount (the amount an individual can give away free from transfer taxes) is $5.45 million. The top estate and gift tax rate is 40 percent. Thus, the combination of lifetime taxable gifts and testamentary taxable estates in excess of $5.45 million will be subject to the 40 percent tax.

Remember that donors can also give $14,000 per year to as many people as desired and it will not be included in their $5.45 million exclusion. This $14,000 annual exclusion is a "use-it-or-lose-it" proposition, so remember to take advantage of this opportunity before the end of the year.

The GST tax exemption is also $5.45 million and adjusted for inflation. As with the gift and estate tax, generation-skipping transfers in excess of the $5.45 million exemption will be subject to the 40 percent tax rate (in addition to any estate or gift tax that is incurred).

If a deceased spouse did not use his or her gift and estate tax exclusion, the unused amount may be transferred or "ported" to the surviving spouse. This concept is known as "portability." Portability is a gift and estate tax concept; it does not apply to GST taxes. However, with creative planning, it may be possible for the first spouse to die to effectively port his or her GST exemption to the surviving spouse.

Higher income earners and wealthier individuals are generally faced with higher income taxes and new challenges with wealth management and transfers. Flexibility in strategic estate planning and drafting of estate planning documents is critical due to the changes in the interplay between income and transfer taxes.

TAX BASIS AND GIFTING

Recipients of "lifetime" gifts generally take the tax cost basis from the donor. For example, if you gift stock with a fair market value of $50,000 that you purchased for $10,000, the recipient's cost basis for the stock is also $10,000 if no gift tax was paid in connection with gift. Beneficiaries of estates generally receive assets with an income tax basis equal to the fair market value of the assets at death. If the same stock referenced in the previous example is transferred on death, the recipient's cost basis is $50,000.

Given the combination of these differences in treatment of cost basis and income tax considerations, we recommend that you work with your advisors to carefully analyze whether it is better to make lifetime gifts or leave testamentary legacies.

YEAR-END INCOME TAX PLANNING: STRATEGIES THAT MAY MITIGATE YOUR 2016 TAX BURDEN

The current income tax environment rewards a more flexible, multi-year approach to managing overall income taxes. By anticipating future income and/or deductions, you may be able to more effectively match deductions against income this year and in the future. Work with your tax advisor to project future income and deductions to determine if there are any opportunities to shift income or deductions in a given year to reduce your overall income tax liability.

Defer income recognition/reduce taxable income

- For many taxpayers, the primary means of deferring income is through deferral of capital gains, either through delaying sales of capital gain property until after December 31, or through the use of the installment method of gain recognition (if applicable).
- Consider deferring compensation to future years, including year-end bonuses where allowable by your employer. Additionally, consider participating through your employer's nonqualified deferred compensation plan. At the time of election, you must choose the distribution method of the future income, such as in one lump sum or over a period of ten years, so understanding projected income in future years would be helpful. However, it's important to understand the risks involved with deferring compensation as nonqualified deferred compensation plans are considered general assets of your employer and subject to their creditor claims.

Accelerate deductions

- Make charitable contributions and/or consider prepaying anticipated or pledged 2017 charitable contributions prior to year-end. The tax deduction available for charitable gifts is dependent on a number of factors, discussed later. Consult with your relationship manager, your tax advisor and the nonprofit organization you support in advance to determine your options.
- Consider prepayment of state income taxes prior to year-end. If you are considering this strategy, be sure to assess the impact of the AMT on such a decision. Since state income taxes are deductible, payment of state income taxes can result in a higher deduction in the current year. However, taxpayers who itemize their deductions may be required to recognize state income tax refunds as income in future years.

Avoid the estimated tax penalty

Individuals who have underpaid their estimated tax quarterly installments cannot avoid the penalty by increasing their estimated tax payments at year-end. However, there are still ways to avoid the estimated tax penalty if your tax projections reveal a problem:

- **Increase your federal tax withholding.** To the extent you are receiving compensation income, consider increasing your federal withholding on W-2 income for the remainder of the year. Withholding is considered ratably paid throughout the year, so a sufficient end-of-year payment may eliminate the estimated tax penalty.
- **Take a rollover distribution from a retirement plan.** When you take a rollover distribution (not a trustee-to-trustee transfer) from a retirement plan, income tax is withheld from the retirement distribution and treated as ratably paid throughout the tax year. If you roll over the distribution's gross amount (including the withheld amount) to an IRA within 60 days, no part of the distribution is treated as income. This approach helps you avoid a penalty while maintaining the favorable tax status of your retirement savings.

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Taxpayers should take a multi-year view of income and deductions to manage the **Pease Limitation**. The Pease Limitation aims to reduce the benefit of itemized deductions such as charitable contributions, mortgage interest, state, local, and property taxes, and miscellaneous itemized deductions. In 2016, the limitation is triggered when AGI levels exceed $311,300 for joint filers and $259,400 for individuals.

Reduce your exposure to the 3.8 percent surtax

- **Purchase tax-favored assets, such as municipal bonds.** Tax-exempt interest, such as that paid by municipal bonds, is excluded from both your modified adjusted gross income (MAGI) and net investment income calculations and will not be considered net investment income subject to the additional 3.8 percent surtax.
- **Manage capital gains and income realization.** To the extent possible, pay particular attention to when you will receive income, generate capital gains, elect out of installment sale treatment, or exercise stock options to keep investment income below the taxable threshold.
- **Manage distributions from taxable trusts to minimize overall tax impact.** As mentioned above, the 3.8 percent surtax applies to taxable trusts with undistributed income in excess of $12,400 for 2016. To the extent that current distributions are possible and consistent with the trust's objectives, consider making distributions to beneficiaries who would not be subject to the surtax.
- **Plan personal gifts to family.** Consider giving long-term capital gain investments to family members who are not subject to the 3.8 percent surtax. For those supporting elderly family members who are not subject to the surtax, consider a gift of long-term capital gain stock. Also, in light of the increased tax burden for higher-income taxpayers, consider whether giving income-producing assets to family members who are in lower marginal brackets to potentially minimize your family's total income tax burden is a suitable strategy for your specific circumstances.
- **Consider Roth conversions.** Since tax-free Roth IRA distributions are not considered investment income or part of your MAGI, if you are able to pay the taxes related to this conversion and the math makes sense, talk to your advisor about converting some or all of a traditional IRA or qualified retirement plan to a Roth IRA. This strategy may reduce your exposure to the surtax in future years.
- **Take advantage of tax-deferred accounts.** Qualified retirement plan and IRA distributions are not considered investment income, so you may want to increase your contributions to these accounts. These distributions, however, are included in your MAGI, which may indirectly subject other net investment income to the surtax. Note that taxable distributions from nonqualified annuities are considered net investment income and are potentially subject to the 3.8 percent surtax.
- **Re-evaluate your participation in passive activities.*** Carefully analyze your current participation levels in passive activities against the "material participation" rules to determine if a reclassification to non-passive status would be beneficial. Speak with your tax advisor about the possibility of increasing material participation in passive activities or grouping activities in order to pass material participation tests.

Reduce the impact of AMT

Your chances of paying AMT may increase if you have:

- Several dependents
- Interest deductions from home equity loans or refinanced mortgages that were not used to buy, build, or improve your main or second home
- Interest from certain private-activity municipal bonds (sometimes called "AMT bonds")
- Large capital gains
- High state and local income taxes
- Large miscellaneous itemized deductions
- Exercised incentive stock options

*Passive activities include trade or business activities in which you do not materially participate. Generally, you materially participate in an activity if you are involved in the operation of the activity on a regular, continuous, and substantial basis. However, rental activities are considered passive activities even if you do materially participate, unless you are a real estate professional.

2015 PROTECTING AMERICANS FROM TAX HIKES (PATH) ACT– TAX EXTENDERS

On December 18, 2015, President Obama signed the **PATH Act,** which included language that permanently extended many taxpayer-friendly provisions. Several other provisions have been temporarily extended through 2016 or 2019, presenting favorable opportunities for a broad spectrum of taxpayers. Some of the Act's permanently extended provisions include:

- Qualified charitable distributions from IRAs
- The election to deduct state and local sales taxes
- Increased expensing limitations for Section 179 property
- Favorable deduction rules for qualified conservation property contributions to charity
- Basis adjustment for stock of S corporations making charitable contributions of property
- Exclusion of 100 percent of gain on certain small business stock
- Reduction in S corporation recognition period for built-in-gains (BIG) tax

Please consult with your tax advisor to discuss how these changes may impact your own situation.

To plan for the potential impact of AMT and help manage AMT risk, consult your financial professionals, including your tax advisor, to determine if any of the following strategies may be appropriate for you:

- **Limit your exposure to AMT bonds.** Certain private-activity bonds are referred to as AMT bonds because their normally tax-exempt interest is taxable income for the AMT calculation. Reducing your exposure to these bonds can help you avoid AMT by eliminating the interest from your AMT income. Taxpayers subject to AMT should compare the after-tax yield of AMT bonds to other bonds not subject to the AMT to determine the value of holding that type of investment.
- **Delay taking capital gains or use tax loss harvesting to offset capital gains.** If you need to limit your AMT exposure, speak to your investment professional about ways to limit large capital gains. Realizing large capital gains is not a preference item for AMT. However, the higher income may impact the phase-out of the AMT exemption, which could increase the amount of AMT tax due. As mentioned previously, state taxes due on capital gains are a tax preference item. Your tax advisor can help with your decision of when to realize capital gains and losses, as well as when to make state tax payments.
- **Take care when exercising incentive stock options (ISOs).** ISOs can increase your potential exposure to the AMT when exercised. When you exercise ISOs, the spread—the difference between the stock's price on the exercise date and your exercise price—is taxable income for AMT purposes if you continue to hold the exercised shares beyond year-end. Consider spreading the ISO exercises over several years to spread out the impact on AMT. Or, consider selling the shares received from the exercise in the same tax year which eliminates the AMT adjustment, if it reduces your overall tax burden.
- **Consider accelerating income into the current year.** For some taxpayers whose AMT exemption is fully phased-out, the top AMT tax rate of 28 percent may be significantly less than the top regular tax rate of 39.6 percent. Be careful not to accelerate so much income into the current year that it pushes you out of the AMT and back into the regular tax system. Be sure to consult your tax advisor for assistance with this comparative calculation.

Reduce state income taxation on trusts

In addition to the impact of federal income tax on trusts, you should consider state income tax (and in some cases, local income tax). Thinking about the impact of state income tax is especially important for discretionary irrevocable trusts that retain trust income. If possible, relocating the administration of a trust from a high-income-tax state (e.g., New York), to a low/no-income-tax state may reduce the overall state income tax burden on undistributed income and significantly enhance after-tax returns. For example, certain states, such as Delaware, do not tax retained trust income for trusts of non-residents. As an added bonus, many of these states have enhanced asset protection and flexible administration features.

There are several ways to relocate a trust to another state. Many states have laws that empower a trustee to change trust location ("situs") by moving the trust assets to a new trust, a process referred to as decanting. Additionally, some trust documents include language allowing the trustee to change the trust situs or distribute property under broad discretion to or for the trust beneficiaries, thereby potentially eliminating the need to go through the decanting process. The process for changing trust situs often takes some time, so advance planning is critical, especially if a large income tax event is approaching. Please reach out to your planner, relationship manager, and legal advisor to engage in a deeper discussion on trust situs to see if this may apply to your situation.

WASH SALE RULE

If you sell and wish to immediately re-establish positions in similar investments in order to retain exposure, you will need to **be mindful of the wash sale rule.**

The wash sale rule prohibits claiming a loss from the sale of a security if you purchase a substantially identical security within 30 days before or after the loss-generating sale. What this means for investors is that harvesting losses must be done in accordance with this rule or the benefits of the loss will be disallowed. If the wash sale rule is violated, the disallowed loss is added to the cost basis of the repurchased shares. In addition, recent advances in IRS reporting requirements for investment firms facilitate enforcement of the wash sale rule.

This rule comes into play when an investor wants to harvest a particular loss in an investment, but also wants to maintain exposure to the investment in his or her portfolio. Whether the additional purchase occurs before the sale (a strategy referred to as "doubling-up") or after, it is important to observe the 31-day window from the date of sale. Note that the trade date, as opposed to the settlement date, is used when counting the days in the wash sale. The last day to double-up a position in 2016 is November 29.

IMPLEMENT A TAX-EFFICIENT INVESTMENT STRATEGY

We have already referenced harvesting tax losses and reviewing which investments you make in tax-advantaged vs. taxable accounts. If you want to minimize taxes applied to your investment accounts, other considerations include:

Minimize short-term gains

If you sell a security within one year of its purchase date, you will be subject to a short-term capital gain. Short-term gains are taxed based on ordinary income tax rates that can be as high as 43.4 percent, including the 3.8 percent surtax added to the top tax bracket of 39.6 percent. Note that these rates do not include state and local tax rates, which can be significant in some locations. As such, short-term gains are taxed at nearly twice the rate of long-term gains. You cannot avoid some short-term gains and others may be economically justifiable even with the higher rate. However, if you can afford to wait until you have held the asset for a full calendar year, you may realize tax savings.

Rebalance your portfolio in tax-advantaged accounts

Consider utilizing assets held in tax-advantaged accounts—such as IRAs, 401(k)s, and 529 plans—to reallocate funds to help minimize taxes generated by your investment activity. The effectiveness of this strategy is limited to the investment options available in your tax-advantaged accounts. For example, many 401(k) plans may not provide fund selections to allow allocations to international fixed income, real assets, or complementary strategies. When rebalancing, pay attention to the wash sale rule as it can still be triggered if you sell a security at a loss and repurchase a substantially identical security within your IRA or tax-advantaged account.

Determine when to realize capital gains

Discuss whether realizing portions of your portfolio's gains (and losses) can help manage the tax impact of activity in your investment portfolio. In some cases, it may be advantageous to recognize larger gains sooner depending on the near-term outlook for your portfolio.

Avoid purchasing new mutual funds with large expected capital gains distributions

Like other types of securities, you realize capital gains on your mutual fund holdings when you sell them. However, a unique feature of mutual funds is their annual distribution of capital gains (and losses) to shareholders. Companies that manage mutual funds announce the amount of capital gains to be distributed to shareholders near the end of the year. The announcement includes a "record date" (the date of record for shareholders to receive a distribution) and an "ex-date" (the date the security trades without the distribution) and is typically expressed as a percentage of shareholders' position (for example, a 10 percent distribution would equal a $10 distribution on a $100 investment).

For taxable investors looking to rebalance their portfolio at year-end, mutual fund distributions can be problematic. A rule-of-thumb is that you typically don't want to buy into capital gains distributions. For example, if you trim an allocation to your portfolio that has performed well, you expect to realize a capital gain. You could exacerbate your capital gains issue by reallocating your rebalanced proceeds to a new mutual fund near the ex-date of its annual capital gains distribution. It is important to discuss rebalancing strategies with your investment professional so that he or she may suggest a course of action within the context of how markets and securities operate.

It is expected that many funds have locked in gains in 2016. Because of such gains, funds that show performance declines for the year have the potential to pay out large capital gains distributions, which can be confusing and maddening for shareholders already stinging from paper losses. As taxes will be due for most taxpayers on April 18, 2017, be prepared to realize strategic losses or raise sufficient cash before year-end to account for these taxable distributions.

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Remember, when executing transactions intended to affect your tax bill, **the trade date—not the settlement date—determines the holding period for most transactions** (which in turn determines whether an asset is held long-term or not). Trades must be placed on or by the last business day of the year.

When considering tax-optimized investment strategies, it is important to understand that **minimizing taxes and maximizing wealth may not always be the same investment objective.** Minimizing taxes at the expense of after-tax financial gain may not be the prudent course of action.

TAX CONSIDERATIONS FOR RETIREMENT PLANNING

Be mindful of required minimum distributions

Annual required minimum distributions (RMDs) from your retirement accounts (e.g. 401(k), IRA, 403(b), or 457 accounts) must begin the year you turn age 70½. To the extent that distributions do not meet the RMD minimum, a hefty 50 percent penalty may be levied on the amount that should have been, but was not, withdrawn.

If you turn 70½ in 2016, you can opt to defer taking your first required minimum distribution until April 1, 2017. Be aware, however, that you will also be required to take your 2017 distribution by December 31, meaning that you will need to pay yourself twice. We recommend that you consult your tax advisor to determine when you should take your 2016 required minimum distribution.

Consider making a Qualified Charitable Distribution in 2016

As stated earlier, the PATH Act permanently extended the ability to make retirement distributions directly to charity for certain taxpayers. These Qualified Charitable Distributions (QCDs) can allow direct distributions to charity of up to $100,000 for taxpayers over 70½ who are subject to RMD requirements. Taxpayers who are charitably inclined can take advantage of this option to satisfy their RMD requirements without recognizing the distribution in gross income.

Consider converting your eligible retirement account to a Roth IRA

As mentioned earlier, converting your eligible retirement account—401(k), traditional IRA, or other non-Roth account—to a Roth IRA may be beneficial before year-end. Roth conversion benefits can include tax-free withdrawals for you and your heirs, and the elimination of required minimum distributions during your lifetime and those of your spouse (if treated as his/her own Roth IRA). Required minimum distributions will be required for non-spouse beneficiaries, but tax-free withdrawals will still apply for qualified distributions.

The Roth opportunity will trigger ordinary income in the year of conversion. To determine if you may benefit from a Roth IRA conversion, we recommend working with your tax advisor to determine all potential Federal and state income and estate tax implications.

Conversion is not an "all-or-nothing" proposition as you can convert any part or all of your eligible retirement account.

Roth IRA conversions in 2015 that were recharacterized in 2016

One of the benefits of a Roth conversion is that it allows the taxpayer to take a "see-what-happens" approach. The converting taxpayer has until as late as October 15 of the following year to see if the conversion was beneficial. If it turns out that the conversion was not (generally because the value of the assets in the Roth IRA decreased), then the taxpayer can undo or "recharacterize" the conversion from the prior year.

If you recharacterized a 2015 conversion in 2016 and you are age 70½ or older, consult your tax advisor as you will likely have to take your required minimum distribution with respect to the amount recharacterized, and you must do so by year-end.

Retirement planning for small business owners and self-employed individuals

While traditional retirement vehicles available to employees such as 401(k) plans ($18,000 maximum employee contribution plus $6,000 catch-up if age 50 or older) and IRAs ($5,500 maximum participant contribution plus $1,000 catch-up if age 50 or older) provide some tax deferral, many other vehicles that provide much larger tax benefits may be available for small business owners and self-employed individuals. Certain defined contribution plans such as Simplified Employee Pension (SEP) plans allow tax-deductible contributions up to the lesser of 25 percent of the employee's compensation or $53,000 for 2016. Defined benefit plans may provide for tax-deductible annual contributions in excess of $200,000, depending on your age.

To receive a 2016 income tax benefit for contributions to a defined benefit plan, the plan must be established prior to year-end. Contributions to SEPs may be made up until the extended due date of the business' 2016 income tax return. Choosing the optimal retirement strategy can be a complex process, so we recommend that you consult your tax advisor before moving forward.

YEAR-END CHARITABLE PLANNING

As you consider capturing potential tax deductions for 2016 through charitable gifts, keep in mind the following guidelines and reminders:

- Donate to a qualified, tax-exempt organization.
- Gifts made via check or credit cards are considered deductible if the check is written and mailed or the charge to the credit card posts on or before December 31.
- Gifts of stock are considered complete on the date the brokerage firm transfers title, which can take several business days (or the date the taxpayer can substantiate permanent relinquishment of dominion and control over the stock), so be sure to plan these types of transfers well before December 31.
- Obtain and keep receipts and be aware of any value received for goods or services that may reduce the value of any tax deduction.
- Review your tax situation and determine which assets to give. Gifts made to charities are generally deductible but are subject to limitations based on the type of asset and your AGI. These limitations are summarized in the table below.
- Charitable contributions that are not deductible in the current year due to AGI limitations can be carried forward for up to five years.

Percentage of AGI a donor can deduct

Type of organization	Cash gifts	Long-term capital gain property[1]	Tangible personal property[2]
Public charity (including donor advised funds)	50%	30% using fair market value of the asset contributed	30% using fair market value of the asset contributed
Private foundation	30%	20% using fair market value if the asset contributed is publicly traded stock	20% using tax cost/basis of the asset contributed[3]

[1] Long-term property is property held more than one year. Short-term property, held one year or less, is subject to different limits.

[2] If it will be used by the charity in conducting its exempt functions (e.g. art in a museum). Different limits apply for tangible personal property that will not be used by the charity in conducting its exempt functions.

[3] If the fair market value of unrelated use property is lower than the tax cost/basis (depreciated asset), the allowed deduction will be limited to the fair market value.

Individuals who are charitably inclined but uncertain of which organizations they would like to support can make an irrevocable contribution to a donor advised fund (DAF), allowing them to receive a tax deduction for the contribution this year but defer the decision for which organization to make charitable distributions to into the future. A DAF allows donors to fulfill their charitable intentions with less time and expense than setting up a private foundation.

Finally, if you previously established a private foundation, be sure that the foundation has made the required qualified charitable distribution (generally five percent of net investment assets) to avoid any potential excise tax on the foundation.

MANAGE IRAS INHERITED BY MULTIPLE BENEFICIARIES

If you are one of multiple beneficiaries to inherit an IRA, you may find that the RMD calculation is based on the life expectancy of the oldest beneficiary. For example, if an IRA is left to three children aged 30, 40, and 45, the annual required minimum distribution for all three children is calculated using the life expectancy of the 45-year-old child, resulting in the distributions being paid out over the shortest period allowable. Such large distributions could potentially have an impact on the income taxes for the younger beneficiaries.

Fortunately, there is a provision that allows the IRA to be divided into separate IRAs by December 31 of the year following the IRA owner's death. By doing so, each beneficiary can use his or her life expectancy for calculating required minimum distributions. Using the prior example, if the IRA owner died on May 31, 2015, beneficiaries would have until December 31, 2016, to divide the IRA into separate IRAs so that each beneficiary could use his or her own life expectancy. Thus, the youngest beneficiary would have approximately 15 additional years over which to take his or her annual distributions.

PLANNING FOR YOUR FAMILY BUSINESS

Every family business owner should take time to understand the options available for business succession and the related tax implications. This is especially true this year because it is likely that the largest change to occur in the estate and transfer planning landscape will relate to family-owned business entities.

Proposed changes in valuation rules affecting family businesses

For some time now, business transitions among families have often been accomplished by transferring ownership in the entity to the younger family members while allowing the senior generation to retain control of the business itself. That control is then transferred when the senior generation is ready to step down or dies. This structure allows for a formalized succession plan that can be defined and communicated with everyone involved without transitioning operational control until the time is right.

Moreover, separation of entity ownership (equity) from entity control enables wealthy families to take advantage of certain transfer tax efficiency. Many clients utilize a structure known as a Family Limited Partnership (or some variation of this entity), which often discounts the value of the business interests they are transferring to their children, thereby reducing or eliminating the 40 percent gift or estate tax that might otherwise be owed.

In response to this perceived abuse of artificially discounting the value of entities transferred to family members, the Secretary of the Treasury ("Treasury") has issued proposed regulations aimed at curbing and potentially eliminating the use of discounts when valuing family business interests.

It is uncertain whether any substantial changes will be made to the proposed regulations, although a hearing to discuss public comments on the proposed regulations is scheduled for December 1, 2016. Final regulations could be issued as early as December 2, 2016 if the Treasury determines there is no legitimate need for change. Alternatively, if the Treasury agrees that certain changes to the regulations are necessary, it may take considerable time for the regulations to become final. Since the timeline is unclear, individuals considering transfers of business interests to family members where a discounted value would be beneficial should begin discussions with legal counsel immediately to determine whether specific action should be taken before these proposed regulations become final. Note that any changes would become effective 30 days after the final regulations are published in the Federal Register.

No transfer planning should be considered without evaluating all financial and non-financial factors that impact gifts, including transfer and income taxes, and the impact of wealth on beneficiaries.

MAKE PLANNING A YEAR-ROUND ACTIVITY

Planning a course to your ideal financial future is an ongoing process, not a one-time event. In our view, planning begins with critical personal discovery steps. It is important to first think about and define your goals and objectives, and determine what issues are most important to you. Revisiting your plan with your financial professionals on a regular basis can help you make appropriate adjustments for any changes in your personal circumstances, avoid potential pitfalls, take advantage of short-term opportunities, and keep you on track to reach your long-term objectives.

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