2017 Year-End Planning Guide

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Since the 2016 election and throughout 2017, there continues to be uncertainty surrounding the future of the U.S. tax landscape. At the time of this publication, details are still thin regarding aspects of President Trump’s plan for tax reform, differences with the House Republican plan remain, and there will likely be much debate and negotiation before any potential new tax legislation is finalized and implemented.

Therefore, many taxpayers may be considering a “wait-and-see” approach regarding tax management. When it comes to year-end tax planning, however, procrastination can be costly. Planning with flexibility and maintaining a goals-based approach that focuses on your long-term objectives is important, and implementing appropriate wealth management strategies before 2018 can still provide opportunities for reducing your potential tax exposure in 2017.

As we continue to monitor the future of U.S. tax policy, we recommend that you meet with your relationship manager, wealth planning advisors, and tax or legal advisors to discuss the considerations and strategies in this guide, understand how they may impact you and your family, and take action to set yourself up for success for year-end and into 2018.

**TAX MANAGEMENT: THE CURRENT LANDSCAPE**

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**Summary of 2017 tax rates and exclusions**

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top income tax rate</td>
<td>39.6%</td>
</tr>
<tr>
<td>Top capital gains tax rate</td>
<td>20%</td>
</tr>
<tr>
<td>Top qualified dividends tax rate</td>
<td>20%</td>
</tr>
<tr>
<td>Surtax on unearned net investment income</td>
<td>3.8%</td>
</tr>
<tr>
<td>Top estate and gift tax rate</td>
<td>40%</td>
</tr>
<tr>
<td>Generation-skipping transfer (GST) tax rate</td>
<td>40%</td>
</tr>
<tr>
<td>Top alternative minimum tax (AMT) rate</td>
<td>28%</td>
</tr>
<tr>
<td>Combined estate and gift tax exclusion</td>
<td>$5,490,000</td>
</tr>
<tr>
<td>GST tax exemption</td>
<td>$5,490,000</td>
</tr>
<tr>
<td>Annual gift tax exclusion</td>
<td>$14,000</td>
</tr>
</tbody>
</table>

Source: Table information is from irs.gov, unless otherwise specified.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married couples filing jointly and surviving spouses</td>
<td>$470,700</td>
</tr>
<tr>
<td>Single individuals filing as head of household</td>
<td>$444,550</td>
</tr>
<tr>
<td>Single individuals</td>
<td>$418,400</td>
</tr>
<tr>
<td>Married couples filing separately</td>
<td>$235,350</td>
</tr>
<tr>
<td>Estates and trusts</td>
<td>$12,500</td>
</tr>
</tbody>
</table>

Source: Table information is from irs.gov, unless otherwise specified.

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2017 Year-End Planning Guide
Estate, gift, and generation-skipping transfer (GST) taxes

Estate and gift tax exclusions are unified and adjusted for inflation. For 2017, the applicable Federal exclusion amount (the amount an individual can give free from transfer taxes) is $5.49 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 $5.49 million will be subject to the 40 percent tax. The GST tax exemption is also $5.49 million and adjusted for inflation. As with the gift and estate tax, generation-skipping transfers in excess of the $5.49 million exemption will be subject to the 40 percent tax rate (in addition to any estate or gift tax incurred).

Relative to the lifetime gift exemption, keep in mind you can give $14,000 per year to as many people as desired without paying gift tax or using up any of your $5.49 million lifetime exclusion. This annual exclusion is a “use-it-or-lose-it” opportunity, so remember to take advantage of it before the end of the year. There are also special lifetime giving options that may allow one to exceed the $14,000 limit, including:

- **Contributions to 529 plans**, which may have the added benefit of tax-free growth potential. The availability of tax or other benefits may be conditioned on meeting certain requirements. For example, individuals can “front-load” a 529 plan by gifting five years’ worth of annual exclusions in the current year per beneficiary. However, this strategy requires the filing of a gift tax return and electing to treat the contribution over five years. During this period, any additional gifts made to the beneficiary will most likely be taxable.

> Please consider the investment objectives, risks, charges, and expenses carefully before investing in a 529 savings plan. The official statement, which contains this and other information, can be obtained by calling your financial advisor. Read it carefully before you invest.

- **Unlimited payments of qualified medical expenses and tuition**, which can be made for anyone if paid directly to the medical provider, health insurance provider, or qualifying educational institution. If a medical expense is paid for someone considered a dependent, it may also qualify as an income tax deduction.

If a deceased spouse did not use his or her gift and estate tax exclusion, the unused amount may be transferred to the surviving spouse through a concept known as “portability.” Portability only pertains to the Federal gift and estate tax concept; it does not apply to GST taxes. However, with proper planning, it may be possible for the first spouse to die to effectively port his or her GST exemption to the surviving spouse.

The Alternative Minimum Tax (AMT)

The AMT exemption for 2017 is $54,300 for unmarried individuals who are not filing as a surviving spouse and $84,500 for joint filers and surviving spouses. Married taxpayers filing separate returns have a $42,250 AMT exemption amount. These exemptions are subject to phase-out beginning at $160,900 for joint filers and surviving spouses, $120,700 for single taxpayers, and $80,450 for married individuals filing separately.

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. Those who will be subject to the AMT in 2017 might consider accelerating income to the extent that those last income dollars will be taxed at the relatively low AMT rate of 28 percent. However, be careful not to accelerate so much income into the current year that it pushes you out of the AMT and back into your regular tax bracket. Also, when trying to save tax dollars, be sure not to use deductions that will further subject you to the AMT like prepaying state income taxes and real estate taxes. Consult your tax advisor for assistance with this comparative calculation.
YEAR-END INVESTMENT PLANNING STRATEGIES

Defer income recognition
- 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 in 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 10 years. Thus, 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.
- Take care when exercising incentive stock options (ISOs). With ISOs, you do not have to report income when you receive the stock option grant or when you exercise it—you report income when you sell the stock. The time at which one chooses to sell the stock determines how the proceeds are taxed. With that in mind, 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 grant price—is taxable income for AMT purposes unless you sell the shares within the twelve months.

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(s) 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
If you have underpaid your estimated quarterly tax installments, you cannot avoid the penalty by increasing your estimated tax payments at year-end. To avoid the underpayment penalty, you must pay on a pro-rata basis throughout the year either 90 percent of your current year tax liability or 100 percent of your prior year tax liability (110 percent if your adjusted gross income is greater than $150,000). However, there are still ways to sidestep the estimated tax penalty:

- **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.

Avoid the wash sale rule when using tax-loss harvesting to offset capital gains

One of the more common strategies to lower your current year tax bill involves recognizing capital losses by year-end. This process is frequently called “tax-loss harvesting.” Before you perform any tax-loss harvesting, be sure to discuss the process with your advisors in the context of your long-term plan and overall investment objectives. If you sell and wish to immediately reestablish positions in similar investments in order to retain exposure, be aware of the wash sale rule.

The wash sale rule comes into play if you want to harvest a particular loss in an investment, but also want to maintain exposure to the investment in your portfolio. 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. 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. 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. The last day to double-up a position is 31 days before the end of year by market close (November 28 in 2017).

Be mindful of year-end mutual fund distributions

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. If you rebalance your 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 (the date the security trades without the distribution) of its annual capital gains distribution. Be sure to discuss rebalancing strategies involving mutual funds with your investment professional so that he or she may suggest a course of action within the context of how markets and securities operate.

Many funds have locked in gains in 2017. 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 for shareholders already stinging from paper losses. As taxes will be due for most taxpayers in April 2018, be prepared to realize strategic losses or raise sufficient cash before year-end to account for these taxable distributions.
YEAR-END RETIREMENT PLANNING STRATEGIES

Manage required minimum distributions (RMDs)
Annual 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 2017, you can opt to defer taking your first RMD (the RMD for calendar year 2017) until April 1, 2018. Be aware, however, that you will also be required to take your 2018 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 2017 RMD.

Consider a Roth IRA conversion
Converting all or part of 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 RMDs during your lifetime and those of your spouse (if treated as his/her own Roth IRA). RMDs will be required for non-spouse beneficiaries, but tax-free withdrawals will still apply for qualified distributions. Roth IRA conversions can also be estate and gift tax-efficient strategies for those who will not need distributions during retirement, but plan to leave their retirement assets to their heirs and not charity.

The Roth conversion will trigger ordinary income in the year of conversion. Before converting your IRA, you’ll want to consider if you have enough money outside of the IRA to pay the resulting taxes. You’ll also want to consider when you will need to start taking distributions. For penalty-free distributions of the converted assets, you will have to wait five years beginning with the year of conversion or have attained age 59½. Keep in mind that penalty- and tax-free earnings are available after five years from the year the Roth was first funded and you have attained age 59½, or as a result of your death, disability, or using the first time homebuyer exception. 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.

Keep in mind that regardless of your financial situation, tax-free earnings are available after five years. You can take a “see-what-happens” approach to determine if the conversion was beneficial for you. If it turns out that the conversion was not, then you may be able to undo or “recharacterize” some contributions or the entire conversion (this year’s deadline is October 16).

Small business owners and self-employed individuals
If you are a small business owner, a significant contributor to your tax liability may be the income that flows through to your 1040 from your business. As you approach year-end and have better clarity on 2017 business results, you should consider updating your tax projection for this expected income. Based on the expected results, you may be able to accelerate the payment of expenses, put new assets into service, or provide customers with more favorable payment terms. These options may push more income into 2018. Depending upon the amount of income expected, you may also be able to better plan for the cash flow required to pay your taxes in April 2018.
While traditional retirement vehicles available to employees such as 401(k) plans and IRAs provide some tax deferral, other plans 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) IRA plans allow tax-deductible contributions up to the lesser of 25 percent of the eligible employee’s compensation or $54,000 for 2017. Defined benefit plans may provide for a maximum annual retirement benefit of up to the lesser of $215,000 or 100 percent of participants’ highest average compensation over a consecutive three-year period. To qualify for a 2017 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’ 2017 income tax return. Choosing an appropriate retirement strategy can be a complex process, so we recommend that you consult your tax advisor before moving forward.

YEAR-END PHILANTHROPIC PLANNING STRATEGIES

Planned giving allows you to support the causes most important to you while also potentially getting the benefit of reducing your income and transfer tax exposure. Based on your specific goals, objectives, and circumstances there are a myriad of options available to help you carry out your immediate and longer-term philanthropic goals:

- Direct gifts
- Qualified charitable distributions
- Donor advised funds
- Charitable trusts
- Charitable gift annuities
- Family private foundations
- Blended gifts (combination of current and deferred giving)

When making charitable gifts at year-end, keep in mind the following guidelines and reminders for helping you realize potential tax deductions in 2017:

- 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 you 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.
- Charitable contributions that are not deductible in the current year due to Adjusted Gross Income (AGI) limitations can be carried forward for up to five years.

Qualified charitable distributions (QCDs) can allow you to make direct distributions from your IRA to charity of up to $100,000. If you are over 70½ years old and subject to minimum distribution requirements, you can take advantage of this option to satisfy your RMDs without recognizing the distribution in gross income.
Individuals who are 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 may be a good option if you are interested in charitable giving but don't want the administrative and fiduciary duties associated with setting up a private foundation.

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.

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.

### Percentage of AGI a donor can deduct

<table>
<thead>
<tr>
<th>Type of organization</th>
<th>Cash gifts</th>
<th>Long-term capital gain property</th>
<th>Tangible personal property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public charity (including donor advised funds)</td>
<td>50%</td>
<td>30% using fair market value of the asset contributed</td>
<td>30% using fair market value of the asset contributed</td>
</tr>
<tr>
<td>Private foundation</td>
<td>30%</td>
<td>20% using fair market value if the asset contributed is publicly traded stock</td>
<td>20% using tax cost/basis of the asset contributed</td>
</tr>
</tbody>
</table>

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.

Source: Table information is from irs.gov, unless otherwise specified.

### 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.