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17 Year-End Moves That Can Preserve Your Tax Benefits

Barring any tax legislation that takes effect this year, your best overall tax strategy in 2017 is much as it would be in any year: To postpone receiving income that will be highly taxed and increasing deductions to offset current income. The less income you realize, the lower your bill. In that vein, here are 17 smart year-end tax moves to consider.

1. Harvest capital losses. If you sell securities at a loss before 2018, you can use those losses to offset gains from other sales—including those from selling stock or other holdings you've owned for a year or less. Those would otherwise be taxed at the high rates for ordinary income. Losses that exceed your gains can offset up to $3,000 of ordinary income, and you can deduct additional amounts in future tax years.

2. Harvest capital gains. Meanwhile, if you decide to take profits on securities you've owned for more than a year, the maximum tax rate on these long-term gains is 15%, or 20% if you're in the top tax bracket for ordinary income.

3. Max out on the 0% rate. Even better than the usual 15% or 20% tax rate on long-term gains, you can benefit from a 0% rate on long-term capital gains that applies to income in the 10% and 15% tax brackets. If you suffered a business loss this year or received less income than usual for another reason, there may be no tax pain on your long-term gain.

4. Buy dividend-paying stocks. Most dividends are taxed at the same favorable tax rates as long-term capital gains. However, to qualify for this tax break, you have to have held the stock for at least 61 days.

5. Watch out for the "wash sale rule." Under this rule, you're prohibited from deducting a loss from a securities sale if you acquire substantially identical shares within 30 days. The easiest way to stay out of trouble is to wait at least 31 days to buy similar holdings.

6. Minimize the NII surtax. A 3.8% surtax applies to your net investment income (NII) or the amount by which your modified adjusted gross income (MAGI) exceeds $200,000 for single filers and $250,000 for joint filers, whichever is less. Keep those thresholds in mind as you consider ways to minimize your income for the year.

7. Give 'til it hurts. As long as you keep proper records, you generally can deduct charitable donations made as late as December 31, even if you use a credit card and aren't billed until next year. Special rules could limit this deduction.

8. Seek a Roth conversion. If you have funds in a traditional IRA, you could transfer the funds to a Roth IRA. You'll pay income tax on the amount you convert but future withdrawals are generally tax-free. So, you pay tax now to save later. Stretching out conversions over several years can reduce the tax bite.

9. Bulk up 401(k) contributions. By

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Third Quarter Update

The U.S. market delivered strong returns in the third quarter (up 4.5%), extending its winning streak to 18 out of the last 19 quarters. But the lead story was, once again, foreign markets. Emerging markets surged 8% and European stocks gained 6.2%. Large-cap growth stocks continued their year-to-date dominance. Core investment-grade bonds inched up 0.7% for the quarter. Core bond prices peaked in early September on flight-to-safety fears around tensions with North Korea, hurricanes and a potential U.S. government shutdown. But yields rebounded, closing the quarter about where they stood three months earlier.

As we look ahead, there are reasons to be optimistic. The synchronized global economic growth recovery continues, providing a solid foundation for corporate earnings and financial assets in general.

Offsetting this attractive shorter-term macroeconomic backdrop are, as always, the known and unknown risk factors. Among the known risks are the historically high domestic equity valuations, policy changes that have yet to be passed (e.g., tax & healthcare reform), and future tightening by the Fed. North Korea also remains a risk we cannot handicap.

We believe we have built client portfolios that are resilient across a range of scenarios; diversified across investment strategies, asset classes, and risk exposures. But it is impossible to completely avoid shorter-term volatility or downside risk. Therefore, we remain cognizant of, and prepared for, the periods of higher volatility that are certain to come within our long-term investing horizon.

As always, we appreciate your confidence and welcome questions. We would also like to extend our wishes for a happy and healthy holiday season.

Avoid This Installment Sale Trap

One tried-and-true method for reducing taxes on a sale of real estate is to use installment sale reporting of payments that will extend over two or more tax years. If you meet all of the requirements, you're taxed on the installments as you receive them, avoiding the higher cost of being taxed on the full amount of your profit all at once. That may not only defer some of your tax liability; you may also pay less overall.

But installment sale treatment isn't always a slam dunk. Your tax benefits, could be reduced if you sell property to a relative or to a trust or corporation you control.

When you sell real estate, any profit you make is taxable as a capital gain. If you've held the property for more than one year, your maximum tax rate for that long-term gain will be only 15%, or 20% if you're in the top bracket of 39.6% for ordinary income. In addition, you may be liable for the 3.8% surtax on net investment income (NII).

Normally, you owe tax on the capital gain in the tax year you get the money, and if you finance the sale and receive payments over two or more years, that delays some of your tax liability. To calculate what you owe each year you first need to determine the "gross profit ratio"—the amount of your gain divided by the price. Suppose you sold a commercial building for $1.67 million and made a profit of $1 million. That gives you a gross profit ratio of 60%. If you receive $250,000 a year, you are taxed on $150,000 (60% of $250,000) of the proceeds annually. Assuming a 20% long-term capital gains tax rate (and excluding any NII surtax complications), your tax each year on the installment sale is $30,000 (20% of $150,000).

However, if you sell the property to a "related party"—that could be a spouse, children, grandchildren, siblings, or parents, but also a partnership or corporation in which you have a controlling interest or an estate or trust you're associated with —and it's then resold within two years, you must report the full amount of the remaining taxable gain in the year of the second sale, even if you haven't received all the installments.

The easiest solution to this problem is to try to make sure the related party you sell to won't resell the property for at least two years.

In addition, if you've claimed depreciation on the property, you'll have to "recapture" it as ordinary income to the extent it exceeds the amount allowed under the straight-line accounting method. Finally, if the sale price of your property (if it's not a farm or personal property) exceeds $150,000, you may owe interest on the amount of tax you defer through an installment sale. ●

"New and Improved" QSBS Tax Break

Maybe you're interested in investing in a new business venture that seems promising. It might even be a business you're trying to kick-start yourself. Either way, you could be in line for a special tax break for investing in "qualified small business stock," (QSBS).

If you hold onto QSBS for at least five years before selling it and you meet other tax law requirements, any profit on your investment is exempt from tax. The Protecting Americans from Tax Hikes (PATH) Act preserved this tax break permanently.

This tax exclusion for QSBS has been kicking around for a while. Prior to 2009, you could exclude only 50% of the gain from the sale of QSBS held at least five years. That effectively reduced the 28% tax rate on QSBS profits to 14%—just one percentage point lower than the maximum long-term capital gains tax rate of 15% (and only 6 percentage points less than the higher 20% long-term capital gains rate for investors in the top tax bracket for ordinary income).

Eventually, the tax exclusion for QSBS was raised to 75%, and after September 27, 2010, it was 100%. And although it was scheduled to fall to 50% after 2014, the PATH Act preserved the full 100% exclusion, retroactive to January 1, 2015, and made it permanent.

Now that the uncertainty is over you can comfortably invest in QSBS, knowing that you might benefit from big tax-free profits in the future if the company is successful.

But the tax exclusion isn't automatic. To qualify, six requirements must be met:

1. The stock must have been issued after August 10, 1993.

2. The stock can't have been acquired in exchange for other stock.

3. The issuing corporation must be a C corporation.

4. At least 80% of the

5 Estate Planning Steps To Benefit Your Elders

Estate planning normally involves strategies to preserve wealth for a family's younger generation. But it may also involve elderly relatives—your parents and in-laws or maybe an aunt or an uncle—who could use your assistance. Indeed, this older generation might need your help even more than your offspring who are already making their way in the world.

Consider these five steps to help your older relatives.

1. Have "the talk." As difficult as it can be to sit down with a parent to talk about money and end-of-life decision-making, there's really no alternative to having a candid discussion of these sensitive matters. Your mom and dad may not like what you have to say, but if you start by really listening, giving them the opportunity to provide their point of view, it could launch a productive discussion. Try to address tough issues such as the possibility of relocating to an assisted-living facility or a nursing home, and don't be surprised if things get heated and emotional. Including other family members, such as your siblings, in this discussion will also be helpful, and whenever possible, have the family meetings in person rather than over the phone.

2. Create a contact list. You've probably already done this for yourself, but compiling all of the names, addresses, phone numbers, and email addresses of crucial contacts for your older relatives can be particularly crucial. These could include financial advisors, attorneys, accountants, insurance agents, physicians, and dentists. These days, creating a digital version of the list and storing it on multiple computers makes the most sense.

3. Gather financial information. Along with a contact list, information about the relative's financial affairs and investment holdings is also essential. You'll want to know about bank and investment accounts, 401(k) or other retirement plan accounts and IRAs, life insurance policies, etc. Note current balances, account numbers, passwords, and information on Social Security benefits. You may find out that your relative has more assets than you'd thought. Use this information to formulate a plan for the future.

4. Create the necessary documents. Once everyone agrees on how to move forward, you may need to complement a will or other existing legal documents with new ones. And those your relative has may need to be revised or updated. Such documents may include:

- A will: The centerpiece of an estate plan controls how most worldly possessions—a house, cars, jewelry—will be distributed. A will also specifies an executor of the estate. This might be you, another relative, or a professional you trust.
- Power of attorney: This document authorizes someone to act on behalf of the elderly person. The most common version is a durable power of attorney that will remain in effect if the person is incapacitated. This is a vital component of most estate plans.
- Living trust: A living trust can serve as a supplement to a will. The assets transferred to a living trust don't have to go through the probate process that may be required for possessions transferred through a will and that can be drawn out and expensive. In addition, assets in a living trust are shielded from public inspection.
- Living will/health care directives: These documents provide guidance for end-of-life decisions. You'll want to make sure your relative's doctors and others also have copies so they can act according to your loved one's wishes.

Finally, don't forget about beneficiary designations for retirement plans, IRAs, and life insurance policies—they supersede provisions in a will and are important to keep up to date.

5. Look for ways to minimize estate and gift taxes. Assets transferred to relatives or friends are shielded from federal estate and gift taxes both by unlimited marital deduction for gifts to spouses and a unified estate and gift tax exemption of $5.49 million in 2017 ($5.6 million in 2018) covering transfers to anyone who's not a spouse. Your older relative can also make yearly gifts of as much as $14,000 ($15,000 in 2018) to multiple recipients.

Estate planning for an elderly relative will inevitably be intertwined with your own plan, so don't do things in a vacuum. Your professional financial advisor can steer you in the right direction. ●

corporation's assets must be used in the active conduct of a qualified trade or business.

5. Certain businesses involving real estate or personal services (for example, law, health, financial services, etc.) are excluded.

6. The corporation can't have had more than $50 million in assets at the time the stock was issued.

In addition to the 100% exclusion for long-term profits, you won't owe any current tax on a gain from the sale of QSBS if you roll over the proceeds into new QSBS within 60 days.

Do keep in mind, however, that investments in new business ventures can be extremely risky, and tax savings won't matter if your QSBS loses all or most of its value. Do your homework before investing and make sure that the investment makes good financial sense as well tax sense. ●

Ask About Personal Residence Trusts

By using a qualified personal residence trust (QPRT), you might be able to sidestep potential estate tax pitfalls while transferring a home to family members. You can continue to live in the home for a term of years, after which ownership passes from the trust to the designated beneficiaries. Your gift of the home to the trust is taxable, but rather than being based on the home's value when it goes into the trust, that value is reduced by the amount of your "retained interest," which is calculated according to a complicated formula based on interest rates, the term of the trust, and other factors.

But this unique estate planning technique is often misunderstood. Here are answers to several common questions about QPRTs.

Q. What are the estate and gift tax consequences?

A. When your home goes into a QPRT, it comes out of your taxable estate. Although the transfer of the remainder interest—the home's value minus your retained interest—is subject to federal gift tax, the resulting tax from this future gift tends to be low, especially while interest rates remain depressed. The IRS relies on the Section 7520 rate, which is updated monthly, to calculate the tax.

Q. What happens if I die before the end of the trust term?

A. Then the home goes back into your taxable estate. This defeats the purpose of the trust, but your family is no worse off than before the trust was created.

Q. Do I have to transfer my principal residence?

A. That's normally the home used in a QPRT, but it can also be set up for a second home. In fact, you can have multiple personal residence trusts.

Q. How long should the trust term last?

A. There's no set period of time. Note that the longer the term, the smaller the value of the remainder interest that's subject to taxes. But a longer term also increases the chance that you'll die before it ends and the home will be returned to your estate.

Q. Can I sell the home during the trust term?

A. You can, but you'll have to reinvest the proceeds in another home that will be owned by the QPRT and subject to the same trust provisions.

Q. Who pays for the upkeep of the home?

A. As long as you still live there, you do, for instance, you might pay the costs of monthly maintenance and repair, insurance, and property taxes to the trustee. But you get to deduct qualified expenses on your tax return.

Q. Can I back out of the deal?

A. No, the trust is irrevocable. However, if you want to stay in the home after the trust term, you can set up a rental agreement with the beneficiaries. They may have to pay income tax on the rent they receive.

Q. Are there any other drawbacks?

A. There are costs associated with a QPRT, including attorneys' fees, appraisal fees, and titling expenses. And you can't take out a mortgage on a home that has been transferred to a QPRT. (An existing mortgage is permitted but it complicates matters.) ●

Preserve Your Tax Benefits

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increasing deferrals to a 401(k) plan, you reduce your taxable income. For 2017, you can defer up to $18,000 ($18,500 in 2018), and $24,000 if you're 50 or older. Your contributions accumulate without current tax.

10. Avoid RMD penalties. If you're over age 70½, you usually must take required minimum distributions (RMDs) from employer retirement plans and traditional IRAs each year. The penalty is 50% of the required amount if you miss the December 31 deadline.

11. Donate stock to charity. You can deduct the fair market value of stock donated to charity if you've owned it more than a year. That can be a good way to sidestep taxes on shares that have appreciated.

12. Sidestep the AMT. Certain types of "tax preferences" may increase what you owe under the alternative minimum tax (AMT) calculation. If it otherwise makes sense, try to postpone preferences to 2018.

13. Bunch medical expenses. Generally, you can deduct medical expenses only to the extent that they exceed 10% of your adjusted gross income (AGI). When possible, shift expenses to the tax year you expect to clear the AGI hurdle.

14. Shift family income. If you transfer taxable investments to a child taxed at a lower rate, your family may pay less overall. However, investment income of more than $2,100 received by a dependent child in 2017 may be taxed at your top tax rate.

15. Use the installment sale method. You can normally defer tax on the sale of real estate if you take payments over two years or longer.

16. Pay next semester's tuition. If you qualify, college tuition paid in 2017 may result in one of two higher education tax credits, depending on your situation. But these tax breaks are phased out for high-income parents.

17. Get in the holiday spirit. Finally, you can give each family member up to $14,000 ($15,000 in 2018) this holiday season without owing any gift tax. Using this annual exclusion also reduces the size of your taxable estate. ●

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