TaxUpdate

2017 TAX TIPS NEWSLETTER

Kim R Michael-Lee, CPA,CGMA
359 Erie Circle
Bloomingdale, IL 60108-8815
PHONE: 630-924-0881
FAX: 630-924-0882
E-MAIL: taxteacher@sbcglobal.net

G*reetings!* *Tax laws may get an overhaul this year – or they may not! Here are some helpful ideas that will help you navigate this climate of uncertainty and save money on taxes along the way.*

Tax Tips for Uncertain Times

The buzz out of Washington D.C. is that major tax legislation is on the horizon. It's unclear whether any of the competing proposals will become law. No matter what's decided, here are some tips to help you stay prepared.

TIP 1 Start cutting now. The primary driver of income tax will always be your adjusted gross income. Try to reduce your taxable income by taking full advantage of retirement savings accounts or health savings accounts.

TIP 2 Review your 2016 tax return. A number of credits will no longer be available in their current form. Project the impact of these changes onto 2017 so you know what to expect.

TIP 3 Take advantage of losses. As it stands, the rates on capital gains will remain unchanged and you can use up to $3,000 in excess losses to reduce your income. Use this knowledge to your advantage.

TIP 4 Take action for your small business. Law changes could materially impact your bottom line. Health care costs and increased tax rates will impact your cash flow. Try to create a full-year projection of income and expenses. This is especially important if you have a seasonal business.

TIP 5 Focus on certainty first. It is tough to get legislation through Congress and the White House, so focus on the impact of what is scheduled to occur, not what might occur.

TIP 6 Be prepared for health care reform. Understand how it may impact you and your family. For instance, with Affordable Care Act laws still in place, you are required to have adequate health insurance or face a tax penalty.

TIP 7 Remain flexible. We will need to stay nimble to manage our tax situation this year and next. Because Congress has a history of waiting until the last moment to pass tax legislation, keep enough liquid assets to act on short notice, if necessary.

Home Office Deduction Tips

If you operate a business out of your home, you may be able to deduct a wide variety of expenses, including part of your rent or mortgage costs, insurance, utilities, repairs, maintenance, and cleaning costs. Here are some tips for this deduction:

1 Don't be Afraid to Take It. Some believe the standard home deduction is too complicated, or that it will increase their risk of being audited. Don't worry, there's a simplified option available, and help is available if you need it.

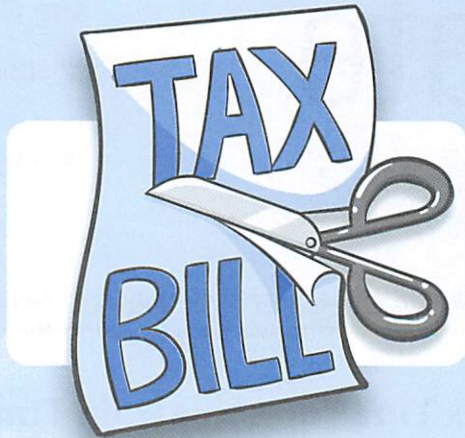
2 Keep It Exclusive and Regular. IRS rules state the space must be exclusively and regularly used for your business. Don't use it as a spare bedroom or a place to pursue personal hobbies; do use it for recurring business activities such as billing and record keeping.

3 No Other Work. You can't do work for an employer in the same home office space you use for your business — you have to keep that work separate. The only exception is if your employer doesn't provide you with a local office or work space.

4 Be Aware of Depreciation Recapture. If you depreciate part of your home using the home office deduction, you will have to account for that when you later sell your home. This could create a future tax surprise. Get assistance to determine your exposure.

Ten Tips to Cut Your Tax Bill

Here are ten surefire tips to help you reduce your taxes.



1. **Take full advantage of all available tax credits.** You'd be surprised how many people forget to take advantage of all the tax credits available to them. Some of the more common credits include: the earned income tax credit, the adoption credit, dependent care credit, and the lifetime learning credit.

2. **Leverage your home as a tax shelter.** Mortgage interest is tax deductible and so are property taxes. Even better: gains on the sale of a personal residence are sheltered up to $500,000 for a married couple.

3. **Use tax-advantaged retirement savings.** There are many initiatives to defer the tax on retirement savings such as IRAs, 401(k)s and 403(b)s. You exclude contributions to these plans from your taxable income until you withdraw funds at retirement.

4. **Use spending accounts.** Many employers offer prepaid spending accounts for health care expenses and dependent care expenses. These allow you to pay for things such as daycare or a visit to the clinic with *pretax dollars.* It's like getting a discount between 10 percent and 39.6 percent.

5. **Manage securities gains and losses.** Gains on the sale of securities such as stocks and bonds held for a year or longer are taxed at the capital gains rate, which is lower than for regular income. Securities sold at a loss can be deducted to offset up to $3,000 in other income every year.

6. **Use debt wisely.** Interest paid on home equity lines of credit (HELOC) is often deductible. Consider using a home equity loan to buy your next car. Then pay off non-deductible, higher-interest debt prior to the HELOC.

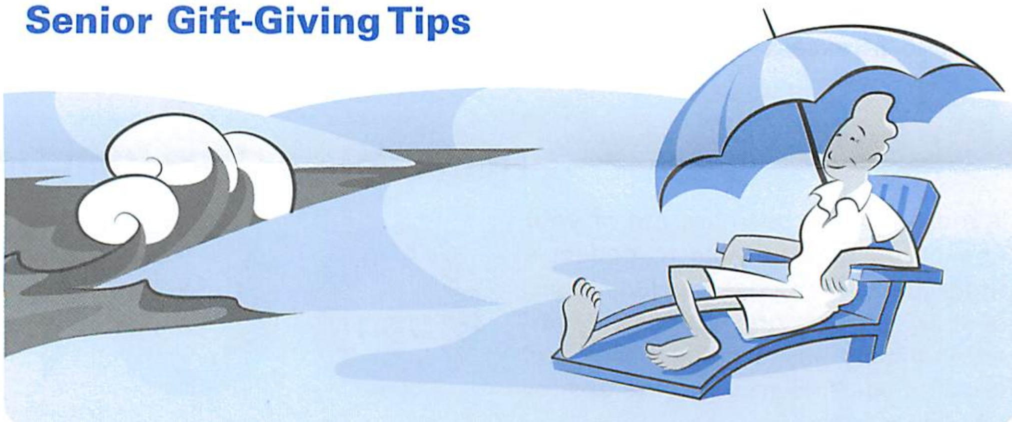
7. **Get educated on education deductions.** There are numerous credits and deductions available to offset college expenses. If this applies to you, ask for help to maximize your tax savings.

8. **Record your charitable giving.** When you donate something, write it down in a logbook and get a receipt. Many people forget that donations of noncash items, such as a bag of clothing given to Goodwill, can be deducted. Even your mileage to and from the charity is deductible.

9. **Shift the timing.** The U.S. tax code is progressive. In other words, the next dollar you earn may be taxed at a higher rate (between 10 percent and 39.6 percent) than your last. Because of this, anything you can do to shift income or expenses into prior or following years can add up to big tax savings.

10. **Keep good records.** If you lose your paperwork supporting a tax deduction or credit, it's like losing money! Try keeping a tax folder available in a handy place and drop anything that may apply to your taxes in the folder. Sort through it quarterly to organize your tax records.

Senior Gift-Giving Tips



One of the potential joys of retirement is having funds available to help others. Here are some tips to make your giving strategy more tax-efficient.

1. **Know the annual gift limits.** You are limited to $14,000 in 2017 before gifts need to be reported to the IRS. This giving limit is per individual, so both you and your spouse can provide $14,000 (total of $28,000) per person per year. But you need to proceed with caution: a birthday or holiday gift can accidently go over the limit if given in addition to an annual gift of cash.

2. **Direct contributions to charities.** Seniors aged 70½ or older may make direct contributions to charities from qualified retirement plans such as Traditional IRAs. There is an annual contribution limit of $100,000.

3. **Help pay for college.** Are you a grandparent? Get your child to open a 529 plan for their newborn so you can make deposits to the account over time or consider donating to a grandchild's college directly.

4. **Avoid the tax torpedo.** When you reach 70½ years old, you will trigger the annual minimum distribution requirements on many of your retirement plans. Know which ones will be triggered and determine if pulling some funds out of these plans earlier will be more tax-efficient. This could save thousands in unwanted taxes and provide tax-efficient gifts for others.

This publication provides summary information regarding the subject matter at time of printing. Please call with any questions on how this information may impact your situation.