CrossRoad Associates
The Right Direction For Real Estate
703.564.4088
www.TeamCRA.com

Direct: 703-564-4088
Toll Free: 1-800-209-4336
Email: Kwteamcra@gmail.com

KW CROSSROAD ASSOCIATES
KELLER WILLIAMS REALTY

8133 Leesburg Pike, Suite 800
Vienna, VA 22182

CAPITOL ASSETS

America's Real Estate & Mortgage Update

Volume XXIX Issue III

2016 YEAR-END TAX PLANNING GUIDE

Ideas for major tax changes, while not the prime focus of the 2016 presidential campaigns, did get a good bit of attention in their platforms and talking points. With the arrival of the new presidential administration in 2017, we would expect to see a broad and long overdue review of the tax law. Not having divided government for a change could mean a more sweeping tax reform effort might be the result of that examination.

A major simplification of the tax system that eliminates many so-called loopholes has long been an objective for many pro-reform forces, but there is little agreement at present on which deserve to be preserved and which ones warrant an axe.

In general, corporate tax reform will likely get a high priority, as could estate tax provisions. For individuals, several itemized deductions, including those for home mortgage interest and property taxes may be on the table for examination, though probably not at great risk. Tax rates will get a look, as well.

In any event, the road to tax reform is likely to be a lengthy and contentious path, with any changes only coming at the end of a protracted and tortuous legislative slog. Taxpayers will want to pay close attention to developments while it is underway.

As for right now, there are a number of steps you can take to ensure you are able to take advantage of the opportunities available for minimizing your tax liability this year and/or next and to avoid unpleasant surprises.

With the arrival of a new presidential administration in 2017, we would expect to see a...long overdue review of the tax law.

For the most comprehensive planning, a professional who is wise in all the technical details of the tax code can help provide the most thorough review of options and strategies available.

Key numbers to know for 2016 and 2017

Over 50 key tax numbers are indexed for inflation, but inflation measures have showed tiny increases in recent years. The index rise for 2017's cost-of-living increase for tax provisions is less than one percent, which is greater than 2016's miniscule 0.2% hike.

After applying the COLA, tax experts project (official IRS figures are not out

PLANNING *continued on page 2*

IN THIS ISSUE:

"*CAPITOL ASSETS* is published monthly by Real Estate Insight, LLC, Edisto Island, South Carolina, which is solely responsible for its content. The information contained therein has been carefully written and edited, but its accuracy is not guaranteed. If anything is not clearly understood, please consult your real estate professional."

PLANNING *continued from page 1*

yet, but the numbers are easily calculated) the personal exemption will remain at 2016's $4,050 for 2017.

Standard deductions should see small increases for 2017, rising $100 to $12,700 for married couples and by $50 to $6,350 for single persons. Single heads of household should get a $50 standard deduction increase in 2017, to $9,300.

Taxpayers in higher tax brackets lose a portion of their itemized deductions and personal exemptions once they exceeded a certain threshold, which is adjusted for inflation.

For 2016, married taxpayers start to lose a percentage of their itemized deductions and personal exemptions at $311,300. In 2017, that level will be $313,800. For singles, the levels will be $259,400 in 2016 and $261,500 in 2017. For single heads of household, the levels are $285,350 and $287,650.

Starting Your Year-end Tax Planning

One of the first steps in year-end tax planning is to figure out if you have income or deductions that can either be accelerated into the current tax year or delayed until the following year and to see whether doing either would benefit you.

☛ Alert:

INVESTMENT INCOME SURTAX LEVELS ARE SET

The Affordable Care Act, imposes a surtax of 3.8% on the net investment income of taxpayers whose adjusted gross income exceeds certain levels.

That amount is $250,000 for joint filers and $200,000 for single individuals and heads of household. These figures are not subject to inflation adjustment. The surtax isn't imposed on IRA payouts or Social Security benefits.

This is especially true if managing your income and deductions will make you an itemizer in one year and a standard deduction filer in the other.

Knowing your marginal tax bracket (the rate at which each additional dollar of income is taxed) is a key to this. Looking at last year's tax return is usually a good way to predict this year's bracket.

The threshold for the 39.6% bracket is $466,950 in adjusted gross income for married couples in 2016 and $470,700 in 2017. For singles, it is $415,050 in 2016 and $418,400 in 2017. Taxpayers in the highest bracket also pay a higher rate, 20%, on capital gains.

Typically, accelerating deductions to the current tax year, while deferring income to the following year, is the preferred move. The basic principal here is that a dollar saved in taxes today is worth more than a dollar saved next year, so long as you don't move to a higher tax bracket. That strategy should once again hold for 2016 & 2017, unless legislation to change the tax rates or bracket structure is passed.

A person returning to work after a layoff or illness or who was out of work (or out of business) during a portion of 2016 may also want to accelerate income.

Some Tax Benefits and Their 2016 Phaseouts

	Married Couple	Single
Deductible IRAs (max. $5,500)[1,2]	$98,000-$118,000	$61,000-$71,000
$1,000/per child credit	$110,000-$130,000	$75,000-$95,000
Student loan int. ded. (max. $2,500)	$130,000-$160,000	$65,000-$80,000
American Opportunity credit (max. $2,500)[4]	$160,000-$180,000	$80,000-$90,000
Roth IRA contribution (max. $5,500)[2]	$184,000-$194,000	$117,000-$132,000
Coverdell Education Accts (max. $2,000)[3]	$190,000-$220,000	$95,000-$110,000

[1]If covered by a retirement plan [2]$5,500 is the general limit. If 50 or older, add $1,000.
[3]Per beneficiary [4]Per student Note: Some phaseouts are based on "Modified Adjusted Gross Income"

The value of tax planning is especially clear in view of the thresholds for tax breaks that have income phaseouts. By shifting income or accelerating or deferring deductions, you might be able to take advantage of them in either 2016 or 2017, when, without planning, they could be unavailable in both years.

The chart above shows some of the thresholds to be aware of when planning. The first figure shows where the benefit of that provision begins to be lost. By the time the second figure in the range is reached, the tax benefit is lost completely.

Accelerating or delaying deductions and income can help you qualify for these tax benefits, but too many of the wrong deductions (investment interest, certain tax-exempt bonds, high state and local income, sales tax and property taxes) or exemptions (for a portion of the value of incentive stock options, for instance) can bring on the AMT.

☛ Alert:

PAY CLOSE ATTENTION TO CHARITY DEDUCTION RULES

Taxpayers who make a charitable deduction of $250 or more must have a written acknowledgement from the charity with details about the gift before their tax return is due. How strictly the IRS is interpreting this is a warning to closely follow all charitable contribution rules.

Even taxpayers who could provide other proof for their gifts have been denied a deduction if they didn't have the letter in hand and on time. Needed in the letter is the amount and nature of the gift and whether any goods or services were provided in return.

Alternative minimum tax levels rise.

Many people have been hoping to see the tricky alternative minimum tax be eliminated. That hasn't happened (maybe it will be under tax reform), but it is now indexed for inflation and full use of nonrefundable credits is permitted.

The AMT exemption for 2016 is $83,800 for joint filers and $53,900 for singles and heads of household. For 2017, it will be $84,500 for joint filers and $54,300 for singles.

So long as the AMT exists, if you have a lot of the deductions

Self-employed persons might be able to postpone billings to delay customer payments until the following year. To accelerate income, self-employeds could aggressively pursue receivables or offer discounts for early payment. Delaying or speeding up payments to suppliers or for other expenses can also be used to tweak the bottom line.

Employees have less flexibility, but they might have an option to receive some income, say a year-end bonus, before or after the new year. Other types of compensation, such as sales commissions, also have some potential to be shifted.

Postpone or Accelerate Deductions

Taxpayers have a little more control over their deductions. If you make estimated state or local tax payments, you probably have the choice of making your year-end payment either before or after the new year. Making a tax year 2016 state tax payment in December would get a deduction for this year, while paying in January would move the deduction to 2017.

Manage Capital Gains & Losses

One important aspect of year-end tax planning is to look for capital losses to offset gains you may have had during the year (called tax-loss harvesting), especially short-term gains (on property held for less than a year), which are taxable at regular income tax rates.

Taxpayers should always take exceptional care with late-year mutual fund purchases in order to avoid year-end distributions in taxable accounts. Call the fund or check the fund's website before making any big year-end purchase of fund shares for a taxable account (nontaxable retirement account purchases are okay) that could land you a distribution of dividends or capital gains taxable in 2016. Such distributions would lower the tax basis of those shares, of course.

While often more tax-friendly than mutual funds, exchange-traded funds can have (sometimes unexpected) tax consequences. Especially tricky are commodity ETFs held in taxable accounts. For example, precious meals, such as gold and silver, are considered collectibles and ETFs that hold the physical metal are taxed at special rates.

If you have losses that exceed your gains, they are deductible only up to $3,000 against other income, but the excess can be carried forward to future years, as many as it takes to offset them, either with gains or income. Don't forget about any losses from previous years that you can carry forward.

If possible, short-term losses should be used to offset short-term gains, which are taxed at regular income tax rates, rather than wasting them on capital gains (gains on investments that have been held for a year or more). Capital gains for those in the highest tax bracket are now generally taxed at a maximum of 20% for most types of property. The capital gains tax rate is zero for taxpayers in the lowest two brackets and 15% for taxpayers in all other brackets short of the top one..

Be aware of "wash sale" rules that say you can't take a loss deduction if you purchase a "substantially identical" security 30 days before or after the sale. Switching to a similar, but not identical, security might be an opportunity to find a better-performing investment. Losses from financial investments can also be used to offset gains from sales of art, antiques and other collectibles (such as metal ETFs), that are taxed at 28%.

Make Charitable Contributions

Charitable giving must be strictly documented. Deductions for contributions of cash, check or any other monetary gift require that the donor can show a bank record or a written communication from the charity indicating the amount of the contribution, date it was made and name of the charity.

Capital gain property can be donated to a charity and a deduction taken for the appreciated value. If you have property that would register a loss if sold, you should sell it first and then give the proceeds to charity.

Deductions for contributions of appreciated property, including real estate, are generally limited to 30% of the adjusted gross income of the donor, but can be carried forward for five years.

Taxpayers can make contributions but defer the decision about how they are to be distributed until later on by using a donor-advised gift account.

> ☛ **Tip:**
>
> **VETTING CHARITIES ONLINE**
>
> When you make a charitable donation, you may wonder how your money will be used. Charities have been filing a Form 990 with the IRS that gives more detailed information and it is available to the public.
>
> Online sources for info on charities include **guidestar.org, charitynagivator.org** and **give.org** can help you figure out where to put your contribution dollars to their very best use.
>
> Check with the IRS regarding less well-known charities. Charities can lose their tax-exempt status and donations would no longer be deductible.

The contribution gets a tax deduction in the year that it is made (another big opportunity for 2016), while the assets can be invested until they are disbursed. Donor-advised funds require initial gifts of as little as $5,000, but generally charge annual fees for administering the fund. Some will accept contributions of appreciated securities.

Special rules apply to contributions of used vehicles to charity. If the vehicle is worth more than $500, and the charity sells the vehicle, the donor will generally get a deduction for the gross proceeds received by the charity.

However, if the charity makes a "significant intervening use" of the vehicle, or sells it at a price below market value to a needy individual in direct furtherance of the charity's purpose, then a deduction can be taken for fair market value.

SOME TAX PROVISIONS NEED EXTENSIONS FOR 2017

A number of tax provisions had been subject to a series of one- and two-year extensions. At last, several of these provisions were given permanent status in December 2015's Protecting Americans from Tax Hikes Act.

However, a couple of others got extensions only through 2016, so the periodic need for reapproval continues.

Some notable provisions that had been extended repeatedly, but are now permanent include:

(1) A provision allowing itemizers to deduct state sales taxes instead of state income taxes;

(2) A rule that allows people over the age of 70 1/2 to make tax-free charitable distributions (contributions) of up to $100,000 per year from their IRAs;

(3) An above-the-line deduction (taken before calculating adjusted gross income) for up to $250 (which will be indexed for inflation) of expenses paid by an elementary or secondary school teacher for books or other educational items.

Getting an extended life only through 2016 and, thus, needing another extension if it is to apply to 2017 and beyond is an above-the-line deduction for higher education costs. The deduction has a maximum of $4,000 for those whose modified adjusted gross income does not exceed $65,000, $130,000 in the case of a joint return.

The maximum drops to $2,000 so long as your MAGI is less than $80,000 for singles and $160,000 on a joint return.

Also in need of a continuation if they are to exist in 2017 and beyond are credits homeowners can claim for expenditures on certain residential energy-efficiency property and renewable-energy generation technologies.

The maximum credit for the total amount of a variety of energy efficient expenditures is $500. A credit for geothermal heat pumps, small wind energy equipment and fuel cells installed on a residence expires after 2016. The 30% credit for solar technologies remains in effect through the end of 2021, but the percentage of expenditures that can be claimed for the credit scales down over the period.

REAL ESTATE RELATED TAX ISSUES

Real estate is the subject of a number of tax planning issues that taxpayers need to be aware of.

***Perennial opportunity*: Flex your mortgage payment.**
For as long as a deduction for mortgage interest is allowed, this will present a perennial planning opportunity. Understand, your mortgage payment for January 2017 actually reflects interest accrued for December 2016. As a consequence, if you make the payment in December, the interest will be deductible for this year.

Interest is deducted in the year that the mortgage servicer records the payment, so send your January remittance early enough to see that it gets recorded before the end of the year if you want the deduction for 2016. This is a tool you can use every year to choose in what year to take a sizeable deduction.

***Good through 2016*: The mortgage insurance deduction.**
Homeowners who have benefited (or hope to benefit) from a provision that allows them to treat mortgage insurance premiums as a deductible item, the same as interest once again will face uncertainty for 2017 and beyond. The provision is one of those that will need an extension to continue to be available past 2016.

The deduction has applied to mortgage insurance premiums paid or accrued, including for prepaid MI, on acquisition (not on refinancing) debt. The deduction phases out for taxpayers (both single and married filing joint returns) with adjustable gross incomes over $100,000.

***Staying in place*: The 14-day rules for owners/investors.**
There are special rules for homeowners who rent their residence and investors who use their rental properties. If you rent your home out for fewer than 15 days, you don't have to report the rent as income (you can't deduct any expenses as rental expenses, though).

Similarly, so long as you don't make personal use of a rental property (including a vacation home) for more than 14 days a year, you can still take depreciation and deduct rental expenses. Generally, "personal use" includes use by family members, by someone who allows you to use their property in exchange or anyone to whom you don't rent at a fair price.

***Uncertain after 2016*. Relief from tax on cancellation of mortgage debt.**
A provision that eliminates the potential tax liability from a foreclosure, short sale or mortgage restructuring was most recently extended through 2016.

When a lender cancels debt, that amount is usually treated as taxable income. The special rule that has been in effect excludes from income cancellation of up to $2 million of debt incurred to purchase a principal residence. The provision doesn't extend to second homes, rental properties or debt from a cash-out refi or home equity line unless it was incurred for the purpose of improving the home.

Note: when a debt of more than $600 is cancelled, a lender will send you and the IRS a Form 1099-C reporting the fact.