

Make 2017 a Happier New Year by Implementing Last-Minute 2016 Tax-Saving Tips

December 20, 2016



The year is quickly drawing to a close, but there's still time to take steps to reduce your 2016 tax liability — you just must act by December 31. Here are five actions to consider taking:

1. Donate to your favorite charities. If reducing your taxable estate is an important estate planning goal for you, making lifetime charitable donations can help achieve that goal and benefit your favorite organizations. In addition, by making donations during your lifetime, rather than at death, you'll receive income tax deductions.

To take a 2016 charitable donation deduction, the gift must be made by December 31. According to the IRS, a donation generally is "made" at the time of its "unconditional delivery." But what does this mean? Is it the date you, for example, write a check or make an online gift via your credit card? Or is it the date the charity actually receives the funds — or perhaps the date of the charity's acknowledgment of your gift?

The delivery date depends in part on what you donate and how you donate it. Here

are a few examples for common donations:

Check. The date you mail it.

Credit card. The date you make the charge.

Pay-by-phone account. The date the financial institution pays the amount.

Stock certificate. The date you mail the properly endorsed stock certificate to the charity.

2. Sell investments at a loss to offset capital gains you've recognized this year. Selling investments that are currently worth less than what you paid for them and are held in taxable brokerage accounts may allow you to lower your 2016 tax bill. Why? Because you can offset the resulting capital losses against capital gains from earlier in the year.

If your losses exceed gains, you'll have a net capital loss for the year. You can deduct up to \$3,000 of net capital loss (or \$1,500 if you are married and file separately) on this year's return against ordinary income from salary, self-employment activities, alimony, interest, and other types of income. Any excess net capital loss is carried forward to future years and puts you in position for tax savings in 2017 and beyond.

However, be aware of the wash-sale rules, which preclude the deductibility of losses in certain situations. If, for example, you sold a security the last week of December for a loss and then bought it back the first week of January next year, you wouldn't be able to use the loss to offset your 2016 gains.

3. Avoid a 50% penalty by taking retirement plan RMDs. After you reach age 70½, you must take annual required minimum distributions (RMDs) from your IRAs (except Roth IRAs) and, generally, from your defined contribution plans (such as 401(k) plans). You also could be required to take RMDs if you inherited a retirement plan (including Roth IRAs). If you don't comply — which usually requires taking the RMD by December 31 — you can owe a penalty equal to 50% of the amount you should have withdrawn but didn't.

4. Make 2016 annual exclusion gifts. The 2016 gift tax annual exclusion allows you to give up to \$14,000 per recipient tax-free — without using up any of your gift and estate or GST tax exemption. A married couple can give

\$28,000 to each recipient. (The exclusion amount will remain the same for 2017.)

The gifted assets are removed from your taxable estate, which can be especially advantageous if you expect them to appreciate. That's because the future appreciation can avoid gift and estate taxes. Because the exclusion doesn't carry over from year to year, you need to use your 2016 exclusion by December 31.

5. Prepay tuition bills for academic periods that will begin in January, February or March of 2017 (if it will make you eligible for a tax credit). If your 2016 adjusted gross income (AGI) qualifies you for the American Opportunity credit (maximum of \$2,500 per eligible student) or the Lifetime Learning credit (maximum of \$2,000 per family), consider prepaying tuition bills that aren't due until early 2017 if it generates a bigger credit on this year's tax return. You can claim a 2016 credit based on prepaying tuition for academic periods that begin in January through March of 2017.

Bear in mind that both the American Opportunity credit and the Lifetime Learning credit can be reduced or eliminated if your modified adjusted gross income (MAGI) is too high. For the former, the current MAGI phaseout range for unmarried individuals is \$80,000 to \$90,000 and the range for married couples filing jointly is \$160,000 to \$180,000. For the latter, the phaseout range for unmarried individuals is \$55,000 to \$65,000, and for married couples filing jointly it's \$111,000 to \$131,000.

If you're ineligible for these two higher education tax credits because your MAGI is too high, you might still qualify for a deduction of up to \$4,000 of qualified higher education tuition. However, you can't claim the deduction for the same year you claim an education credit or if anyone else claims an education credit for the same student for the same year.

A few additional miscellaneous steps you can take before December 31 to reduce your 2016 tax bill include paying your 2016 property tax bill that's due in early 2017, making your January mortgage payment and asking your employer if your bonus can be deferred until January.

Keep in mind that in certain situations these strategies might not make sense. We'd

be pleased to help you determine the right steps to take now to lessen your 2016 tax bite.

2016 - 2017 Tax Planning Guide

Our complimentary [2016 Tax Guide](#) is designed to stimulate conversations. The guide includes tax planning strategies for investors, families and business owners, as well as education, retirement, estate planning and other tax saving opportunities. The on-line guide will be updated regularly to reflect any changes that are made in tax law on the federal level. For more information, click [here](#).