William Blair

Private
Wealth
Advisory

10 Year-End Tax Tips for 2017

Now is the perfect time to reflect on the progress made on your 2017 financial goals and what you and your family envision for 2018 and beyond. It is also time to think about ways to help minimize your 2017 tax obligations and act before the end of the year. In the absence of any concrete change in tax legislation, current strategies remain relevant.

Harvest capital losses

The bull stock market that began in 2009 has continued throughout 2017, so there is a good chance that stocks sold during the year have built-in capital gains. With high-income taxpayers facing federal income taxes of up to 23.8% on long-term capital gains, it can be valuable to look for opportunities to offset any gains by selling positions with capital losses. When harvesting losses, it is important to be aware of the "wash-sale" rule. This rule prevents you from claiming a loss on the sale of a security if you buy substantially identical securities 30 days before or 30 days after the sale.

Contribute appreciated securities to charities

Donating to charities can be a great way to save on taxes, and the tax savings are even more valuable when the gifts are made via appreciated stocks or other securities with capital gains. Assuming you have owned the security for at least a year, you will receive a deduction for the fair market value of the securities at the time of the donation. Because charities are tax-exempt organizations, they do not have to pay capital gains tax when they sell the stock. This allows the assets to avoid capital gains taxation and enhances the net value of your contribution.

Maximize the value of itemized deductions

With many common itemized deductions—such as charitable gifts, real estate taxes, and miscellaneous itemized deductions—you may have some control over whether they occur in 2017 or 2018. It may be helpful to talk with your tax advisor about when the deductions will provide the most net benefit to you. This is especially true if 1) you earn more than $313,800 as a couple (or $261,500 for individual filers), making you subject to the phase-outs on itemized deductions and personal exemptions, or 2) you expect your 2017 income to be significantly different than your 2018 income.

Make direct payments for educational or medical expenses on behalf of heirs

Generally speaking, if you give children, grandchildren, or other loved ones money to help them pay for their education or medical expenses, those gifts count against your annual gift exclusion and your lifetime gift exemption amount. But if you make the payment directly to the school, hospital, or other institution, the payment is not considered a gift and, thus, avoids the gift and estate tax regime.

Health savings account

If you have access to a health savings account (HSA), don't overlook this valuable long-term savings vehicle. Oftentimes, this is thought of as the go-to fund for current medical expenses, but HSAs are actually another form of retirement savings. These vehicles are triple tax advantaged—you receive a tax deduction for making a contribution, tax-free growth, and tax-free distributions over your lifetime when used for qualified medical expenses. Before age 65, there is a 20% penalty tax and income tax due on nonqualified withdrawals. Once you turn 65, you will be able to use the funds in the HSA for any purpose without penalty, although withdrawals are subject to income tax. The 2017 annual contribution limits are $3,400 for individuals and $6,750 for families.

Consider making 529 plan contributions
If you are interested in saving for a loved one's college expenses, a 529 plan offers powerful tax benefits. Contributions to a 529 plan grow tax-free, and withdrawals that are used for qualified educational expenses are exempt from federal—and in many cases, state—income tax. These plans also provide a great deal of flexibility; the beneficiary of the plan can be changed to another family member at any time, and the funds can be used at virtually any accredited college or university in the country, regardless of which state's 529 plan you use. Over 30 states now offer some form of tax deduction to contributions made to a college savings 529 plan by a resident of that state. Contributions must be made by December 31 to qualify.

Use RMDs for charitable donations
Upon reaching age 70½, IRA owners have to start taking required minimum distributions (RMDs) from their accounts or face a steep penalty. For charitably inclined IRA owners who do not need the IRA assets to fund living expenses, having IRA distributions made directly to a charity can be a great way to accomplish three goals at once: you can make a charitable donation, meet the RMD rules, and avoid recognizing those distributions as taxable income. The maximum amount that can be donated directly from an IRA is $100,000 per year.

Adjust for annual increase in estate and gift tax exemptions
The estate and gift tax exemption amounts (i.e., the amount you can give without incurring estate or gift taxes) are indexed for inflation. For 2017, the exemption amounts are $5.49 million per person (or $10.98 million per married couple). You can give up to $14,000 (or $28,000 per married couple) to an unlimited number of recipients in 2017 without incurring any gift tax or using any of your lifetime gift exemption. This can be a great way for families with taxable estates to reduce the size of their estates and transfer wealth to the next generation. It is important to revisit your wealth-transfer strategies regularly to make sure they account for the new limits.

Consider a Roth conversion
Converting a traditional IRA to a Roth IRA before December 31 will actually increase your tax bill for 2017, but it may help you reduce your taxes significantly over the long run. When you convert a traditional IRA to a Roth IRA, all of the pretax contributions and growth of those funds are counted as taxable income in the year of the conversion. In exchange for that up-front tax hit, you get the benefits of a Roth's tax-free growth and lack of RMDs for the rest of your life. A Roth conversion may be particularly attractive for estate planning purposes or if you think your tax bracket in retirement will be higher than your current tax bracket.

Name a charity as your IRA beneficiary
If you plan to leave a substantial portion of your estate to charity, it is important to think about which assets you want to contribute. In many cases, it makes sense to designate the assets remaining in your traditional IRA upon your death as part of your charitable bequest. Qualified charities do not have to pay income tax on IRA assets. If you instead name your children as your IRA beneficiaries, for example, they will owe income tax on any distributions from the account.

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Tax considerations are an important part of your portfolio management and wealth-transfer planning, but they are not the only—or most important—thing you need to consider. At William Blair, we are committed to helping you achieve your comprehensive wealth management goals. If you would like to discuss any of these year-end strategies and how they apply to your unique financial circumstances, please contact your William Blair advisor.

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