Winningham
Becker
& Company, LLP

21031 Ventura Blvd
Suite 1000
Woodland Hills, CA
91364-2306
Tel (818) 598-6525
Fax (818) 598-6535
www.wbac.com

Year-End Tax Planning Letter (short version)

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To Our Clients and Friends:

As we get closer to the end of yet another year, it's time to tie up the loose ends and implement tax saving strategies. With the fate of many of the long-favored tax breaks (so-called extenders) having been settled late last year, this year's planning should be easier—at least more certain tax-wise—than it has been in quite awhile. Of course, the national elections, as always, bring about a certain amount of angst in the tax and financial world, but at least we know what the tax laws are for 2016 and the odds of tax law changes in the near future seem pretty slim regardless of who is elected.

We've listed below a few money-saving ideas that you may want to put in action before the end of 2016:

- Between now and year-end, review your securities portfolio for any losers that can be sold before year-end to offset gains you have already recognized this year or to get you to the $3,000 ($1,500 married filing separate) net capital loss that's deductible each year.

- If you own any securities that are all but worthless with little hope of recovery, you might consider selling them before the end of the year so you can capitalize on the loss this year.

- If your itemized deductions are just at or below the standard deduction (currently $12,600 for joint filers, $6,300 for singles, and $9,300 for heads of households), consider bunching itemized deductions, such as charitable contributions, property taxes, and the fourth quarter estimated state income tax payment into a single tax year and taking the standard deduction the following year. However, watch out for AMT, as these taxes aren't deductible for AMT purposes.

- If you have reached age 701/2, consider making charitable donations directly from your IRA. These so-called Qualified Charitable Distributions (QCDs) are federal-income-tax-free to you, which equates to a 100% write off (up to $100,000 per individual IRA owner per year), without having to itemize deductions. Be careful. To qualify for this tax break, the funds must go directly from your IRA to the charity.

- If your employer offers a flexible spending account arrangement for your out-of-pocket medical or child care expenses, or a health savings account for medical expenses, make sure you're maximizing the tax benefits during the upcoming enrollment period for 2017.

- If it looks like you are going to owe income taxes for 2016, consider bumping up the federal income taxes withheld from your paychecks now through the end of the year.

- If you are self-employed, consider employing your child. Doing so shifts income (which is not subject to the Kiddie tax) from you to your child, who normally is in a lower tax bracket or may avoid tax entirely due to the standard deduction. There can also be payroll tax savings and the ability to contribute to an IRA for the child. But be careful for college-age kids—too much earned income can detrimentally impact financial aid.

- If you own an interest in a partnership or S corporation that you expect to generate a loss this year, you may want to make a capital contribution (or in the case of an S corporation, loan it additional funds) before year end to ensure you have sufficient basis to claim a full deduction.

- And finally, watch out for the Alternative Minimum Tax (AMT) in all of your planning because what may be a great move for regular tax purposes may create or increase an AMT problem.

Again, these are just a few suggestions to get you thinking. If you'd like to know more about them or want to discuss other ideas, please feel free to call us.

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