TAX PLANNING FOR YEAR-END

2016 Year End

PATHSTONE
FEDERAL STREET

As we approach the end of 2016, it is a good time to take stock of the past year and plan for the future. As a firm, we always look ahead for potential changes and how they might affect our clients and as we have done in the past, we are pleased to provide our year-end planning guide. Keep in mind that tax rules change often and the application of rules and regulations vary from situation to situation. Change is sure to come with our new President and that will present planning challenges and opportunities, however we are here to assist and to help you build wealth for yourselves and your families. We have provided a variety of items to consider as we begin planning for 2017. Thank you for your business and trust in us to help you achieve your financial goals.

In This Issue

POST-ELECTION TAX POLICY UPDATE

As you may well know by this point, Donald Trump has promised both "tax reform" and "tax simplification" as high-priority issues to be addressed during his presidency. The following summary provides an interpretation of Trump's campaign promises into actual policies, based on the accounting and finance industries' collective "best guesses" as to what may actually come out of the GOP-controlled 115th Congress.

Trump's Proposed Individual Tax Policy Updates

- Compress the current seven tax brackets into three: 12%, 25%, and 33%. (See projected bracket income level chart at the end of this document)
- Increase the standard deduction to $15,000 for single taxpayers and $30,000 for married taxpayers filing jointly, in addition to eliminating the personal exemption. The 2017 standard deductions under current law are $6,350 and $12,700, respectively
- Impose a cap on itemized deductions of $100,000 for single taxpayers and $200,000 for married taxpayers filing jointly
- Maintain the current tax rate structure for capital gains and dividends (currently 0%, 15%, or 20% based on income tax bracket), however the 3.8% net investment income tax (NII, as part of Obamacare) would be repealed.
- Elimination of the Alternative Minimum Tax (AMT)
- Provide a new above-the-line deduction for child & elder care expenses, subject to income thresholds

- Create new Dependent CARE Savings Accounts (DCSA's). These would be tax-favored savings accounts for children and dependent care expenses, which would be matched by a government contribution
- Eliminate the tax-favorable treatment of a carried interest (currently taxed at 20%). A carried interest would be taxed as ordinary income

Trump's Proposed Estate Tax Policy Updates

- Repeal the gift, estate, and generation-skipping transfer taxes
- Disallow the basis step-up that is used in estates to shelter otherwise taxable gains, with an exemption amount of $5,000,000 per decedent ($10,000,000 per married couple) (e.g., the imposition of a capital gains tax at death)
- Disallow a deduction for contributions of appreciated assets to a private charity established by a decedent or a decedent's relatives

Trump's Proposed Business Tax Policy Updates

- Lower corporate income tax rate to 15%
- Eliminate the corporate Alternative Minimum Tax (AMT)
- Allow owners of pass-through entities (sole proprietorships, partnerships, and S-corporations) to elect to be taxed at a flat rate of 15% on their pass-through income retained in the business. Upon distribution of the entity's assets, a second layer of tax would be imposed (similar to the tax on dividends of shareholders of C corporations)
- Increase the annual cap on Section 179 (additional first-year depreciation) expensing from $500,000 to $1,000,000
- Raise the annual cap on the business tax credit for providing on-site childcare
- Grant manufacturing firms an immediate deduction of all new capital investments in the business in lieu of deducting interest expenses
- Provide a deemed repatriation of corporate profits held abroad at a one-time reduced tax rate

Again, these are the latest tax reform updates from the Trump administration that could lead to comprehensive policy changes. Although we cannot know which of these changes will be passed through the legislative houses at this point, there will inevitably be compromises along the way. The good news is you can rest assured that your Pathstone team will remain abreast of all policy updates and will take the prompt appropriate measures to keep more of your money working for you.

In the meantime, and until any changes have been made, we must work and plan within our existing system. Here are some highlights.

Alternative Minimum Tax Planning (AMT)

AMT is a separate federal income tax system with its own rates and rules governing the recognition and timing of income and expenses. Taxes are calculated twice—once under the regular tax system and again under the AMT system. If your income tax liability under AMT is greater than that of the regular tax system, the difference is reported as an additional tax on your federal income tax return. That said, it is our priority to help you reduce your exposure to AMT.

Below is a list of key triggers and adjustments. While AMT takes away personal exemptions and a number of deductions, it provides specific exemptions and thresholds outlined below.

Note: Under AMT, the first $186,300 (for 2016) of your taxable income is taxed at a rate of 26%. If your filing status is married filing separately, the 26% rate applies to your first $93,150 (for 2016) of taxable income. Taxable income above these thresholds is taxed at a flat rate of 28%.

Key AMT Triggers

- Number of personal exemptions
- Miscellaneous itemized deductions (including investment expenses)
- State and local tax deductions (including income and real estate tax deductions)

AMT Adjustments

- Standard deduction & Personal Exemptions— the federal standard deduction and personal exemptions under the regular tax system are not allowed for AMT calculating purposes
- Itemized deductions— no state and local taxes or certain miscellaneous deductions
- Exercise of ISO's— income is recognized to the extent that the FMV of the acquired shares exceeds the option price.

AMT Exemption Amounts by Filing Status	2016
Married Filing Jointly	$83,800
Single or Head of Household	$53,900
Married Filing Separately	$41,900

AMT Exemption Phase-out Threshold	2016
Married Filing Jointly	$159,700
Single or Head of Household	$119,700
Married Filing Separately	$79,850

Protecting Americans from Tax Hikes "PATH" Act

Just before the end of 2015, Congress passed the PATH Act which makes permanent many of the extenders that have repeatedly been set to expire at the end of each calendar year, but were often renewed last minute, sometimes not until January of the following calendar year. The "permanency" provided by the PATH Act allows for better tax planning throughout the year, and for future years, in a multitude of tax categories.

The PATH Act also introduces more deductions for individuals and businesses. Some of the most notable provisions of the PATH Act are as follows:

- Qualified Charitable Distributions for those 70 ½ and older are now permanently tax-free up to the maximum $100,000 per spousal IRA
- The expanded Section 179 deduction is now permanent
- Bonus depreciation has been extended to 2019

Gift Tax Planning

The annual gift tax exclusion remains at $14,000 per recipient and $28,000 if gifts are split with a spouse. It is important to note that the $14,000 annual exclusion is on a per donee basis. Thus if you have grandchild A and B, you can give up to $14,000 to grandchild A and $14,000 to grandchild B without making a taxable gift ($28,000 to each if married and splitting gifts). 529 plans allow for an accelerated gift of five years of annual exclusions to specific savings accounts for future qualified college education expenses ($70,000 per recipient or $140,000 if married and splitting gifts). Please note that the lifetime exemption has increased from $5.45 million in 2016 to $5.49 million in 2017 ($10.98 million if married).

Proposed Regulations Under Section 2704

On August 4, 2016, the Treasury Department and IRS proposed new regulations under Section 2704 that seek to limit the use of valuation discounts available to taxpayers upon the transfer of an interest in closely held family enterprises.

With the proposed changes, discounts associated with the lack of control and marketability will significantly decrease (by how much is uncertain based on recent treasury comments). This will minimize the estate planning advantages that come with the sale, gift, or transfer of non-voting or minority interests in LLC's, or limited partner interests in limited partnerships.

However, with the election results and the Trump administration's proposal to eliminate the estate and gift tax, the Treasury may have shifted their focus away from the proposed regulations. It is uncertain at this time whether or not current law will be overridden regarding valuation discounts.

2016 Year-End Charitable Giving

It always makes sense to think about charitable giving using cash or long-term appreciated capital assets as part of your year-end income tax planning. This year, it may make even more sense than usual. You may want to make a large gift, and possibly even max out your 2016 charitable deduction (50% of your adjusted gross income (AGI) for gifts of cash and 30% of your AGI for gifts of long-term appreciated securities to a public charity). This is because under the Trump tax plan, total itemized deductions, including charitable gifts, would be limited to $100,000 for single taxpayers and $200,000 for married taxpayers filing jointly. In other words, if his plan goes through, deductions for gifts to charity would be severely restricted in the future. Even if his plan does not go through, if you can afford it, there is very little downside to accelerating charitable gifts that you would otherwise make in future years anyway.

Donor Advised Funds (DAFs) and Private Foundations (PFs).

Donor Advised Funds and Private Foundations are two types of vehicles that allow you to make a charitable gift, receive an immediate tax deduction, and then make gifts out of the vehicle to the ultimate charities over time. If you already have one or both, you should think about extra funding for 2016. If you do not have one, it may be too difficult to get a new Private Foundation up and running by year-end, but you still have until early December to establish and fund a Donor Advised Fund for 2016. With that said, we would be happy to discuss the pros and cons of each and assess which makes the most sense for you. We advise you to take prompt action and whichever route you choose, we will be glad to help you with the process.

Year-End Reminders

With 2016 drawing to a close, it is important to keep in mind more common year-end tax planning strategies:

- Purchasing low income housing, film, and education state tax credits to reduce your federal and state tax liability
- 2016 IRA Contributions can be made until April 2017
- Satisfy any required minimum distributions from retirement accounts
- Trust distributions
- Accelerate deductions and/or defer income
- Consider selling capital assets currently at a loss to offset capital gains
- Pay gifts of tuition and non-reimbursable medical expenses directly to the school or medical provider
- Host annual meetings for your family office, partnerships and foundations
- New Filing Dates for:
  - Partnerships—March 15, 2017
  - Trusts—extended due date September 30, 2017
  - FinCEN Form 114 (FBAR)—April 15, 2017

Conclusion

During an election year there is increased uncertainty and this year we are faced with unique challenges and opportunities. Pathstone Federal Street will manage and monitor your tax situation to help achieve your long-term and short-term goals. Providing important tax planning information is our way of continuing our partnership together. We hope you find this information helpful in assessing your year-end tax planning strategies.

Current Law Tax Brackets				
Single Filers	Married Joint Filers	Rate	Qualified Dividend & Long Term Capital Gain Rate	Short Term Capital Gains
$0 to $9,275	$0 to $18,550	10%	0%	10%
$9,276 to $37,650	$18,551 to $75,300	15%	0%	15%
$37,651 to $91,150	$75,301 to $151,900	25%	15%	25%
$91,151 to $190,150	$151,901 to $231,450	28%	15%	28%
$190,151 to $413,350	$231,451 to $413,350	33%	15%	33%
$413,351 to $415,050	$413,351 to $466,950	35%	15%	35%
$415,051+	$466,951+	39.6%	20%	39.6%

Trump's Proposed Tax Brackets				
Single Filers	Married Joint Filers	Rate	Qualified Dividend & Long Term Capital Gain Rate	Short Term Capital Gains
$0 to $37,500	$0 to $75,000	12%	0%	12%
$37,500 to $112,000	$75,001 to $225,000	25%	15%	25%
$112,501+	$225,001+	33%	20%	33%

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