

Tax Guide 2017



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Introduction

As the season for year-end tax planning approaches, the possibility of tax reform means it's essential for individuals and business owners to consider a wide variety of tax strategies to best position themselves for the future. The plan, which aims to simplify the tax code, lower the business tax rate, and grow the economy, could significantly impact taxpayers if adopted. That said, sound tax planning—especially in the face of such unpredictability—is essential to effective wealth management.

How to Use This Guide

We encourage you to evaluate your options and outline tax planning strategies with your Moss Adams professional sooner rather than later. While it can be tempting to put off thinking about taxes until the last minute, some of the tactics discussed here take time to implement, and your window of opportunity grows smaller as the tax year-end approaches.

In addition to referencing this guide during tax planning season, it can also be a helpful year-round tool. Staying actively involved in these and other underlying areas of tax planning will keep you in a position to preserve and create longer-term wealth for yourself and your family.

Finally, the strategies discussed in this guide are based on current federal tax law. State taxes should also be considered since the tax laws of many states differ from federal tax laws. In light of the evolving tax code, we suggest you visit mossadams.com to stay abreast of any changes.

Tax Reform

This guide provides important planning ideas based on the current federal tax code. With President Donald Trump's election and Republican control of Congress, it seems increasingly possible that there will be tax reform.

Here are some of the specific tax reforms that have been discussed for corporations and individuals and trusts.

CORPORATIONS

- Reduce corporate tax rates to 20% from 35%
- Immediate 100% expensing of qualified tangible personal property
- Repeal alternative minimum tax (AMT)

INDIVIDUALS AND TRUSTS

- Consolidate seven individual income tax brackets into four
- Eliminate estate tax
- Repeal alternative minimum tax (AMT)
- Eliminate deductions for state sales or income tax
- Modify or limit deductions for mortgage interest
- Increase standard deductions and eliminating personal exemptions

At Moss Adams, we understand that during this time of potential transition in tax code, it's important to stay in front of potential tax changes and incorporate a level of flexibility in tax planning.

PERSONAL INCOME

Federal Income Tax Brackets and Rates

The taxable income brackets are adjusted for inflation. There are no changes in the tax rates for 2017.

2017 Federal Income Tax Brackets

MARGINAL RATE	SINGLE	MARRIED FILING JOINTLY	MARRIED FILING SEPARATELY	HEAD OF HOUSEHOLD
10.0%	\$0-\$9,325	\$0-\$18,650	\$0-\$9,325	\$0-\$13,350
15.0%	\$9,325-\$37,950	\$18,650-\$75,900	\$9,325-\$37,950	\$13,350-\$50,800
25.0%	\$37,950-\$91,900	\$75,900-\$153,100	\$37,950-\$76,550	\$50,800-\$131,200
28.0%	\$91,900-\$191,650	\$153,100-\$233,350	\$76,550-\$116,675	\$131,200-\$212,500
33.0%	\$191,650-\$416,700	\$233,350-\$416,700	\$116,675-\$208,350	\$212,500-\$416,700
35.0%	\$416,700-\$418,400	\$416,700-\$470,700	\$208,350-\$235,350	\$416,700-\$444,550
39.6%	\$418,400 or more	\$470,700 or more	\$235,350 or more	\$444,550 or more

2017 Top Federal Tax Rates

Ordinary earned income*	39.6%	*The Medicare surcharge of 0.9% will also apply to earned income (wages and income from self-employment) if earned income is over \$200,000 (for single filers) or \$250,000 (for joint filers).
Net investment income and passive income**	43.4%	**Includes interest, ordinary dividends, royalties, net rental income, and other passive income.
Long-term capital gains***	23.8%	***Includes 3.8% surtax on net investment income and certain items of passive income with adjusted gross income over \$200,000 (for single filers) or \$250,000 (for joint filers).
Qualified dividends***	23.8%	
Estate and gift tax	40.0%	

Capital Gains

The maximum 2017 rates for capital gains and qualified dividends remain at 20%. If your taxable income falls below the following thresholds, then your maximum capital gains rate will instead be 15%:

SINGLE	MARRIED FILING JOINTLY	MARRIED FILING SEPARATELY	HEAD OF HOUSEHOLD
\$418,400	\$470,700	\$235,350	\$440,550

Regardless of your taxable threshold, the tax rate could potentially rise an extra 3.8% if you're subject to the Net Investment Income Tax (NIIT).

With that in mind, here are some planning actions you may want to take:

- Make use of unrealized portfolio losses
- Donate securities with appreciated capital gains
- Time expenditures, such as medical expenses, to shift deductions
- Time year-end property and state income tax payments

Stock Options

If your compensation package includes stock options, paying close attention to how and when you exercise your options and sell your stock can have a substantial impact on your personal tax liability.

Here are a few ways you can control the tax impact:

EXERCISE ISOs UP TO AMT CROSSOVER

Assuming you aren't already in AMT, consider exercising any incentive stock options up to the AMT crossover point, which is the point at which you'll begin to pay AMT on any additional ISO exercises. By purchasing stock only up to the crossover point, you're essentially exercising those shares tax-free. Exercise any more, and you'll end up paying AMT.

SELL PUBLICLY TRADED SHARES AT A LOSS

Consider selling the stock if your ISO is for a publicly traded stock, the stock price has gone down, you've held it for less than a year, and it doesn't look like it will recover soon. This will trigger a disqualifying disposition that makes your gains taxable as ordinary income, freeing you from paying AMT on the spread when you exercised.

This works best when done within the same tax year (that is, when you exercise early in the year and disqualify by year-end if the stock goes down).

EXERCISE NONQUALIFIED STOCK OPTIONS

If you expect to be subject to AMT for 2017 and don't expect any AMT credit carryforward, consider exercising nonqualified stock options. In doing so, the accelerated ordinary income may be taxed at 28% (the AMT marginal rate) compared to 39.6% for taxpayers in the highest marginal federal tax bracket. Plus, all future appreciation will be considered a capital gain.

Be sure to weigh your potential tax savings against the opportunity cost of accelerating the income, taking into account the time value of money.

FILE AN 83(B) ELECTION AND EXERCISE EARLY

If you've received an option grant subject to vesting restrictions and the value of the shares is still equal to the grant price (or strike price), consider exercising your options early, assuming early exercise is available. This will start the capital gains holding clock, getting you to the preferential tax rate on long-term gains sooner.

If you do choose early exercise, don't forget to file an 83(b) Election Form with the IRS, because there's a time limit for doing so. Ask your advisor if you have any questions about this.

Alternative Minimum Tax

The Alternative Minimum Tax, known as AMT, applies to those who might otherwise pay little or no regular tax because of the use of certain deductions. You'll need to pay AMT if it results in a higher tax liability than your regular income tax would. When it comes to calculating AMT, many items are *not* deductible; and in fact, they only increase your risk of having to pay AMT instead of regular income tax.

A combination of the following factors, which will vary in effect depending on your individual tax situation, could trigger an AMT liability:

- Large deductions for state and local income or sales tax (particularly in high-tax states such as California and Oregon)
- A large portion of total income from long-term capital gains
- The exercise of incentive stock options (ISOs)
- Personal property or real estate taxes
- Investment advisory fees
- Accelerated depreciation adjustments and related gain or loss differences
- Employee business expenses
- Tax-exempt interest on certain private activity bonds
- Interest on home equity loans not used to build or improve your residence

To reduce your AMT exposure:

- Consider the deferral of payments to the period that provides the greatest tax benefit.
- If you're planning to exercise ISOs, consult your Moss Adams advisor to avoid unexpected tax consequences, since the exercise might trigger AMT liability and increase your overall current tax liability. (See *Stock Options* below for additional guidance.)
- If you anticipate paying AMT and plan to either purchase a new residence or make improvements to your current residence, consider obtaining the maximum mortgage available if you might otherwise need to borrow the funds later on. Under AMT rules, interest expenses are deductible on only the debts you incur to acquire, construct, or rehabilitate a residence. Additionally, interest expenses on second mortgages are deductible only if they're used for substantial improvements to an existing residence.

Net Investment Income Tax and Additional Medicare Tax

The 3.8% NIIT and additional 0.9% Medicare surtax apply to taxpayers with income above certain thresholds. The thresholds for the two taxes are nearly the same, but they apply to different types of income.

The 0.9% additional Medicare tax applies to Federal Insurance Contributions Act wages and self-employment income. The NIIT equals 3.8% of the lesser of the taxpayer's net investment income or the amount by which the taxpayer's modified adjusted gross income (MAGI) exceeds the thresholds.

Net investment income includes interest, dividends, capital gains, rents and royalty income, income that isn't from a trade or business, and any other passive business income (meaning the taxpayer doesn't materially participate in the business).

Certain types of income are excluded from net investment income, including wages, self-employment income, active trade or business income, retirement plan distributions, unemployment compensation, Social Security benefits, alimony, interest from tax-free bonds (such as municipal bonds), and Alaska Permanent Fund Dividends.

Note that the thresholds aren't indexed for inflation, which means they haven't changed from last year or the year before. It also means that inflation alone will cause these taxes to reach increasing numbers of taxpayers over time.

Limiting Your Tax Exposure to the NIIT

Higher-income taxpayers should evaluate their liability for the NIIT and the additional Medicare tax. If one or both taxes may apply, consider adjusting your withholding amount or estimated tax payments to account for the increase.

HERE ARE SOME OTHER WAYS TO LIMIT YOUR TAX EXPOSURE TO THE NIIT:

- Time deductions and losses
- Prepay state income tax
- Reconsider investments that generate passive income
- Maximize your retirement contributions
- Use like-kind exchanges—these kinds of transactions, in place of cash, can defer triggering taxable gains in rental or business real estate
- Use the installment method
- Revisit activity participation levels
- Gift income-producing assets to children
- Distribute trust income
- Incorporate as an S corporation

2017 Individual Thresholds for NIIT and Additional Medicare Tax

	SINGLE	MARRIED FILING JOINTLY	MARRIED FILING SEPARATELY	HEAD OF HOUSEHOLD	WIDOW OR WIDOWER WITH DEPENDENT CHILD
3.8% NIIT (on MAGI)	\$200,000	\$250,000	\$125,000	\$200,000	\$250,000
0.9% Additional Medicare Tax (on Wages and Self- Employment Income)	\$200,000	\$250,000	\$125,000	\$200,000	\$200,000

Note: Thresholds not indexed for inflation

International Considerations

Understanding the tax implications of cross-border transactions and investments is even more critical today than ever before. For example, US taxpayers living outside of the United States need to be alert to special issues in estate planning; and US citizens with noncitizen spouses have issues of their own to address. Increasing numbers of Americans live, work, and—especially—invest abroad. These are activities that may create a host of filing requirements and potential traps for the unwary. Significant and frequently negative tax issues may also be created when individuals immigrate to or expatriate from the United States.

The following may help you reduce your tax burden and risk:

CONSULT WITH YOUR ADVISOR REGARDING ANY FOREIGN MUTUAL FUND INVESTMENTS

Investing in a foreign mutual fund or passive foreign investment company (PFIC) may essentially double your tax burden related to gains or income from the investment compared to a non-PFIC investment unless you make certain elections; in fact, in some situations it creates significant tax liabilities when no economic gain has actually been realized.

REVIEW TAX AMNESTY PROGRAM OPTIONS

In 2016, the IRS made several changes to the Offshore Voluntary Disclosure Program, the Streamlined Foreign Offshore Procedures, and the Streamlined Domestic Offshore Procedures. These programs are designed for US taxpayers who have unreported foreign income for prior years or who haven't submitted all the required disclosure forms to the IRS.

FILE A US TAX RETURN, EVEN IF YOU'RE OVERSEAS

Unlike most nations, the United States requires citizens and US green card holders residing outside the United States to file annual US income tax returns and to pay tax on their worldwide income.

UNDERSTAND THE US FOREIGN DISCLOSURES REQUIREMENTS

US citizens, green card holders, and US tax residents who make or hold foreign investments may have a number of disclosure requirements even if there aren't any current tax consequences.

Some of the most common foreign disclosures forms are:

- Foreign Bank Account Report—FinCen 114
- Statement of Specified Foreign Financial Assets—Form 8938
- Transfer of property to a Foreign Corporation—Form 926
- Controlled Foreign Corporation—Form 5471
- Controlled Foreign Partnerships—Form 8865
- US Recipient of Gift(s) from a non-US person greater than \$100,000 or a Distribution from a Foreign Trust - Form 3520
- US Beneficiary or Owner of a Foreign Trust - Form 3520A

It's important to understand and comply with the foreign disclosure requirements as many of these carry a minimum \$10,000 penalty for failure to file.

Individual Taxpayer Identification Numbers (ITINs) Subject to Expiration

Those holding an ITIN are individuals who have a US tax-filing obligation but don't have, and aren't eligible to obtain, a Social Security number (SSN) from the Social Security Administration (SSA).

An individual's ITIN may expire on December 31, 2017, according to the IRS. Those set to expire are:

- ITINs that haven't been used on a federal tax return at least once in the past three years
- ITINs issued prior to 2013 with middle digits of 70, 71, 72, or 80 (example 9xx-72-xxxx)

Individuals whose ITINs are set to expire but have a filing requirement in 2018 should submit a Form W-7 in order to renew their ITIN as soon as possible.

CREDITS AND DEDUCTIONS

Charitable Giving

Making a charitable contribution may entitle you to an income tax deduction in the year you make the gift. Most deductible contributions are those made to US organizations described in Section 501(c)(3) of the Internal Revenue Code. This includes not-for-profit entities organized and operated for charitable, scientific, educational, religious, and other purposes. Contributions to nonqualifying charitable organizations aren't deductible.

A few tax-saving opportunities to consider when engaging in charitable activities:

- Examine any volunteering activities and expenses
- Gift appreciated or depreciated property
- Plan the timing of larger charitable gifts
- Account for charitable deductions in AMT calculations
- Use credit cards and checks to squeeze in final 2016 deductions
- Choose a recipient later using **donor-advised funds**

Charitable Giving as Part of Your Overall Estate Plan

By incorporating your charitable contribution planning into your long-term estate plan strategy, you can help increase cash flow for yourself and your heirs while achieving your charitable goals.

CONSIDER SETTING UP A CHARITABLE REMAINDER TRUST

If you plan to make sizable donations, this will allow you to take the deduction when you fund the trust; the remaining assets will be passed to charitable organizations at the end of the trust term. Properly structured and administered, the trust can also accumulate greater assets without incurring a tax burden, since the trust is tax exempt.

DESIGNATE CHARITABLE ORGANIZATIONS AS RETIREMENT ACCOUNT BENEFICIARIES

In doing so, assets held in accounts such as 401(k)s and IRAs fund your charitable bequests while reducing income and transfer tax consequences.

KEEP TABS ON COMPLEXITY

Direct contributions to qualified organizations, donor-advised funds, and charitable trusts each come with their own complexities and costs. As a donor, balance the size of the charitable contribution with the complexity of the gifting vehicle.

Document Your Charitable Contributions

As you execute your charitable gifting plan—even if you haven't formally created one—remember that you're only able to utilize potential tax deductions to the extent that you document them effectively. To that end, adhere to the following guidelines:

IF YOU DONATE...	MAKE SURE TO...
Less than \$250	Keep a receipt, letter, bank record, or other written record from the recipient with recipient's name, amount, and date of contribution.
\$250-\$500	Obtain a written acknowledgment from the recipient.
\$501-\$5,000	In addition to the written acknowledgment from the recipient, if you're donating noncash property, document the method of acquisition, date acquired, and adjusted basis of property.
More than \$5,001	If donating noncash property, obtain an appraisal by a qualified appraiser. (This doesn't apply to publicly traded stock.)
\$500,001 or greater	If donating noncash property, obtain an appraisal by a qualified appraiser (again, unless publicly traded stock) and attach a copy to your tax return along with acknowledgment from recipient.

Real Estate Holdings

With the prices of real estate continuing to rise, opportunities to save related tax dollars are critical. Work with your tax professional to utilize energy incentives or make a Section 1031 exchange.

Medical Expense for Elders

Starting from the tax year 2017, the 10% AGI medical expense threshold applies to taxpayers age 65 or older.

College Education

Higher education is a significant expense for many families. Taking time to consider how you can use related expenses as a tax advantage is worth the effort.

CLAIM THE AMERICAN OPPORTUNITY TAX CREDIT

This credit is available for the first four years of qualified expenses paid for undergraduate education. For tax year 2017, you may be able to claim up to \$2,500 per student. Of the credit amount you receive, 40% is refundable (up to \$1,000).

EXPLORE OTHER CREDITS AND DEDUCTIONS

If you're paying for postsecondary education and aren't eligible for the American Opportunity Tax Credit, you may still be eligible for the lifetime learning credit or the tuition and fees deduction. Consult your Moss Adams professional to determine your eligibility.

CREATE A SECTION 529 ACCOUNT

These investment accounts can be used to accumulate funds for college-related expenses. The appreciation on the investments within the account is tax-free for qualified distributions. Under certain elections, taxpayers may contribute up to \$70,000 (for single filers) or \$140,000 (for married couples) to a Section 529 account in one year without reducing their lifetime gift and estate tax exemption, although you should contact your tax professional regarding gift tax filing requirements.

If you currently maintain college funds in taxable accounts, it may make sense to shift these funds to a Section 529 account, where they won't generate future taxable income.

WEALTH MANAGEMENT

Investment Management and Strategy

While tax planning shouldn't be the sole driver of investment decisions, it can play an important role in preserving and generating investment returns, growing your assets, creating sustainable income, and achieving financial security. The decisions you make today and throughout the course of your career can affect your short- and long-term investments as well as your taxes. Seek advice from a tax and investment perspective so you can feel confident that the two are aligned with your wealth management goals.

OPTIMIZE YOUR PORTFOLIO BY ALLOCATING ASSET CLASSES TO YOUR DIFFERENT ACCOUNTS

With an eye toward reducing your tax obligations, this means placing:

- Income-producing assets in IRAs
- High-appreciating, long-term assets in taxable accounts
- Highest appreciating assets in Roth IRAs

ACCOUNT FOR THE IMPACT OF STATE TAXES

When selecting municipal bonds for the federal tax-free interest income, consider the impact of state income taxes as well.

STAY DISCIPLINED

With fixed income yields remaining low despite increases in the federal funds rate, avoid the temptation to change your investment risk profile solely to search for potential increased yield.

CONSIDER REALIZING LOSSES

Work with your investment advisor to manage net capital gains and utilize any unrealized capital losses that may be in your account (tax-loss harvesting).

REDUCE CAPITAL GAINS

Consider making your charitable donations using appreciated investments to avoid paying capital gains taxes on those holdings.

REEVALUATE AND REBALANCE PORTFOLIO

Given recent equity market performance, review your investment strategy to determine whether your asset allocations remain consistent with your personal goals and if it's time to rebalance your portfolio.

EVALUATE THE IMPACT OF THE NIIT

Reevaluate tax-exempt yields versus taxable yields in light of current market conditions and the 3.8% tax.

Personal Financial Planning

CREATE OR UPDATE YOUR PERSONAL FINANCIAL PLAN

For those without a plan, take the time to set clear short- and long-term goals, and begin to monitor your progress toward those goals.

Insurance

EVALUATE YOUR NEEDS AND GOALS

Update your life insurance policies to align them with your current personal, business, and estate planning goals. Pay particular attention to policy type, coverage amounts, the premium payer and ownership, and beneficiary designations.

CHECK IN ON POLICY PERFORMANCE

Review your existing insurance policies, including annuities, to confirm they're performing as expected and operating efficiently.

ASSESS THE EFFECTS A LONG-TERM CARE OR DISABILITY EVENT MAY HAVE ON YOUR FAMILY'S FINANCIAL GOALS

Weigh the protection options available to help alleviate any potential impact.

REVIEW EMPLOYER-OWNED POLICIES

If you purchased a new employer-owned life insurance policy, confirm that the required formalities are being followed. If not, the proceeds could become taxable income when received, increasing the corresponding tax liability.

REEVALUATE BUY-SELL AND KEY MAN INSURANCE POLICIES AND PLANS TO AFFIRM PROPER STRUCTURE AND VALUATIONS

Businesses evolve over time; accordingly, buy/sell agreements and insurance policies must also be up-to-date with the business.

Retirement Planning

Taxes can be a key factor in retirement planning. The tax-related decisions you make now and throughout the course of your career will affect how much you're able to save for your retirement and through what means.

2017 Requirements and Limitations: Retirement Savings Vehicles*

	ROTH IRA	TRADITIONAL IRA	SEP IRA	SIMPLE IRA	QUALIFIED PLANS: 401(K) OR 403(B)
INDIVIDUAL REQUIREMENTS					
Income limitation, joint	\$186,000	\$99,000**			
Income limitation, single	\$118,000	\$62,000**	None	None	None
Required minimum distribution age	NA	70.5	70.5	70.5	70.5
MAXIMUM CONTRIBUTIONS					
Employee	\$5,500	\$5,500	Not permitted for plans set up after 1997	\$12,500	\$18,000
Catch-up (age 50+)	\$1,000	\$1,000	NA	\$3,000	\$6,000
Combined employee and employer	NA	NA	\$54,000	\$25,000	\$54,000
TAX BENEFITS					
	Distributions are tax-free after age 59.5	Contributions are typically deductible (see below for limits on deductibility)	Contributions may be made only by the employer; contributions aren't included in employee income	Contributions are made pretax	Contributions are made pretax unless you're making Roth contributions

*Distributions before age 59.5 are included in income and may be subject to an additional 10% penalty tax, with some exceptions; all allow for tax-free growth.

**Limits the deductibility of contributions; applies only to active participants in an employee-sponsored plan.

Things to Consider

ESTABLISH CERTAIN PLANS BEFORE YEAR-END

Keogh plans, 401(k) plans, and certain others allow larger tax deductions, but they must be established by year-end—even though contributions don't need to be made by that time. If you're considering options for a company-sponsored retirement plan, be sure to have it in place before December 31.

WEIGH THE BENEFITS OF A ROTH IRA

Any taxpayer can now convert a traditional IRA to a Roth IRA, regardless of income (AGI). Certain qualified plans may allow for what's known as an inside-the-plan conversion, which should also be considered where appropriate. Some conversions may be taxable to the extent that you don't have basis in the converted funds. Always consult your tax advisor first.

WATCH FOR PENALTIES WITH MULTIPLE IRA ROLLOVERS

Established January 1, 2015, the once-a-year limit on IRA rollovers that aren't direct custodian-to-custodian transfers will apply to all your IRAs in aggregate rather than to each one separately.

EMPLOY CHILDREN TO JUMP-START RETIREMENT SAVINGS

If a child has earned income, there are strategies he or she can use to contribute to a traditional or Roth IRA. Where practical, consider employing children in the family business to generate earned income. Those earnings can be contributed or funds could be gifted into the IRA accounts.

CONTRIBUTE TO A MYRA ACCOUNT

This is a low-risk, Treasury-backed Roth IRA investment account intended for beginner retirement savers who don't otherwise have access to an employer-sponsored plan.

CHECK YOUR EMPLOYER PLAN

Be sure you're maximizing your contribution to any retirement plan programs your employer may sponsor and receiving the full employer matching contribution if there is one.

Estate and Gift Planning

With permanent rates now in effect for estate, gift, and generation-skipping transfer (GST) taxes, estate planning may seem less challenging; however, this permanence is relative. In the tax world, it means only that there are no expiration dates. Congress could still pass legislation to eliminate the estate tax or alter today's rates and rules.

Estate and Gift Tax Rates and Exemptions

Gift tax rate	40%
Estate tax rate	40%
Estate tax and lifetime gift exemption	\$5.49 million*
GST tax exemption	\$5.49 million*
Portability of estate tax exemptions between spouses?	Yes

*Indexed for inflation

IRS Proposal 2704

On August 2, 2016, the IRS released proposed regulations that would strengthen its goal of significantly reducing valuation discounts for transfers of minority interests among family members in closely held businesses and investment entities—such as family limited partnerships. On October 2, 2017, the Treasury Department announced that it plans to withdraw the proposed regulations. Now is the time to evaluate and update your estate and gift strategy for transferring your closely held business.

Lifetime Gifts

In 2017, the amount you can give during your lifetime without incurring any gift tax has increased slightly. It's currently set at \$5.49 million (with an annual exclusion of \$14,000 per recipient). This amount will be indexed for inflation annually. The gift tax rate on gifts greater than \$5.49 million is 40%.

If you plan to give, consider the following methods for reducing your tax exposure:

TAKE FULL ADVANTAGE OF THE \$14,000-PER-RECIPIENT ANNUAL EXCLUSION

Remember that your spouse can also gift \$14,000 per recipient.

PLAN THE TIMING AND TYPE OF GIFTS

When considering lifetime gifts above the annual exclusion, plan carefully to chart a tax-efficient course of action while considering your personal cash flow needs and long-term estate planning goals.

MIND STATE INHERITANCE TAX ISSUES

Some states have an inheritance tax of their own, and the exemption amount can be much less than the federal amount (\$5.49 million).

Gifts and Trust Entity Structures

CONTRIBUTE PROPERTY TO A FAMILY-CONTROLLED ENTITY

A family limited partnership (FLP) is the preferred vehicle for this tax-saving technique. It provides the senior member continued control of the assets held in the FLP while gifting a portion to the next generation.

FORM A GRANTOR-RETAINED ANNUITY TRUST (GRAT)

In this technique, a grantor gives an asset to a GRAT. In turn, the GRAT pays the grantor an annuity stream based on the current value of the asset. The annuity is a fixed amount determined after the value of the assets is set.

Developing or Updating Your Estate Plan

In addition to the specific estate and gift planning opportunities previously covered in this section, remember that the end of the year is an ideal time to revisit your plan as a whole (or create one, if you don't already have one).

Here are a few of the items to cover:

- Understand and revisit your goals
- Confirm powers of attorney are in place and wills are up to date
- Plan for transition
- Understand how federal and state estate tax laws will affect you

BUSINESS CONSIDERATIONS

Business Credits

A number of business tax credits and incentives are available in 2017 to help you reduce what you owe. In addition to those listed here, be sure to consider hiring and zone-based credits as well as those available at the state and local level.

CLAIM SMALL-EMPLOYER HEALTH INSURANCE CREDITS

Eligible small employers are allowed a credit for 50% of certain contributions made to purchase health insurance for their employees. Eligible employers are generally those with 10 or fewer full-time equivalent employees with wages of \$25,000 or less that offer a qualified health plan through a Small Business Health Options Program exchange.

TAKE ADVANTAGE OF THE EMPLOYER-PROVIDED CHILD CARE CREDIT

Employers can claim a credit of up to \$150,000 for supporting employee child care or child care resource and referral services. This provision has been extended permanently.

EXPLORE R&D TAX CREDITS

If your organization develops new or improved products or processes, it may be able to benefit from federal and state (where applicable) R&D tax credits. The R&D tax credit is a dollar-for-dollar credit against taxes owed or paid. Also, if your organization is a qualified small business, the organization may elect to apply the credit against the OASDI and FICA tax.

CONSIDER IF THE WORK OPPORTUNITY TAX CREDIT CAN BE CLAIMED FOR YOUR BUSINESS

The credit is available for a portion of first-year wages paid before January 2020 if your employees belong to an identified targeted group under IRC Sec 51(b).

Real Estate Investment Assets

Business owners commonly acquire real estate that they then lease to their businesses. These function as investment assets, and they're often owned by a legal entity, such as an LLC, separate from the business for a variety of legal, financial, tax, and personal reasons.

One common benefit of rental real estate ownership is the tax losses it generates as a result of depreciation, mortgage interest expense, real estate taxes, and other property maintenance expenses—particularly in the early years of ownership.

Despite the routine nature of these arrangements, it comes as a surprise to many that these tax losses may not be immediately deductible against other sources of income, such as wages, capital gains, or business income.

Employee Benefits

Offering a variety of benefits can help you attract and retain the best employees—and it could help you save tax dollars.

AMEND DOCUMENTS TO ALLOW IN-PLAN ROTH ROLLOVERS

If your company offers a 401(k) or 403(b) plan, you can now amend them so that participants can convert them to Roth plans, which may be more tax-efficient for some. Some governmental 457(b) plans also allow in-plan Roth rollovers.

EXTEND COST-FREE RETIREMENT SAVINGS OPTIONS THROUGH MYRA

Finalized by the Treasury Department in December 2014, the myRA program is a no risk, Treasury-backed Roth IRA intended for beginner retirement savers who don't otherwise have access to an employer-sponsored plan.

CONSIDER VERIFYING THE MARITAL STATUS OF EMPLOYEES

For employees who don't notify you of a marital status change following *Obergefell v. Hodges*, you may want to consider checking into whether they're engaged in legal marriages or domestic partnerships. *Obergefell* was a Supreme Court case that decided in 2015 that same-sex couples had the fundamental right to marry.

CONSIDER ADDING FINANCIAL WELLNESS TOOLS AND RESOURCES

You can assist employees with their overall financial planning needs with these additions to benefit offerings.

ALIGN WORK, CAREER, AND BUSINESS GOALS WITH EMPLOYEES' LIFE, FAMILY, AND HEALTH NEEDS

This can help provide work-life balance strategies and personalize your message.

REWARD EMPLOYEES

Variable pay strategies can help to motivate and retain key personnel.

Health Care Reform

A number of Affordable Care Act (ACA) provisions in addition to the NIIT, which stands for Net Investment Income Tax, and Medicare surtax will impact individuals and families that don't receive health insurance under an employer's plan.

GATHER DOCUMENTATION TO SUBSTANTIATE YOUR 2017 COVERAGE

Insurance companies are required to report the coverage provided to health insurance policyholders on the new Form 1095-B. Employers will report if they offered minimum essential coverage to their employees on Form 1095-C.

Employers with self-insured health plans may choose to report insurance offered and the coverage actually provided on a single Form 1095-C by filling out Part III of that form.

RENEW OR PURCHASE YOUR 2018 COVERAGE

Marketplace coverage for 2017 ends December 31, 2017. You can either renew your existing health plan or choose a new plan via the marketplace during the 2018 open-enrollment period, which opened November 1, 2017, and ends December 15, 2017.

BE AWARE OF PENALTIES

The health care mandate penalty for not having health insurance in 2017 is 2.5% of household income (capped at the annual premium for the national average Bronze plan sold through the marketplace) or \$695 per adult plus \$347.50 per child under 18 years old

(capped at \$2,085). Starting in 2017, the percentage will remain at 2.5%, but the flat fee will be increased each year by a cost-of-living adjustment.

If an individual wasn't covered for every month of 2017, they may still be able to avoid paying penalties if they qualify under one of the available exemptions including short-term gaps in coverage when switching jobs or for certain financial hardships. Please contact your Moss Adams professional to discuss this further.

Choice of Business Entity

Choosing the proper entity for your business is vital. With income and estate tax rates increasing in recent years, having the wrong entity structure for your business might be costing you more tax than you think. For example, holding a business in an LLC might be great for flexibility but have higher likelihood of being subject to self-employment tax.

Questions that should be asked to determine if your entity structure needs to be re-examined:

HAS YOUR BUSINESS SIZE CHANGED SUBSTANTIALLY?

Entities aren't one size fits all. Different size businesses have their own unique issues, including choice of entities.

HAS YOUR BUSINESS PURPOSE CHANGED SUBSTANTIALLY?

In our fast-changing economy, businesses are frequently finding their purpose changing, which could have an impact on entity choice.

HAS YOUR ESTATE PLAN CHANGED?

An estate plan will often have an entity component. Business changes may drive the need to re-evaluate your estate plan. Estate planning may also impact the business structure.

HAS THE TAX CODE CHANGED?

Business that were formed before 2013 didn't have to deal with the tax increases associated with the ACA signed in 2010. If you're subject to those tax increases, consider looking at your entity type again.

Exit Planning

As a business owner, exit planning is a major, one-time opportunity that warrants your long-term attention. It also requires a long-range planning horizon. Understanding your strategic options for exiting your business will keep you in a position to extend your business's value and legacy while preserving the wealth you've generated for your future.

Consider your exit in terms of the following basic strategies:

KEEP YOUR BUSINESS IN THE FAMILY

You can transfer ownership of your business by gifting or selling your ownership interests to other family members. Consider your future income needs, gift and estate taxes, and the impact of your decisions on family members who may or may not be involved as the next generation of owners.

ENGAGE IN A MANAGEMENT BUYOUT

If your family members aren't able or willing to take the reins, a management buyout offers these key advantages:

- You save time and resources that would otherwise be spent finding an outside buyer.
- New owners have a shorter learning curve that positions them well to maintain the pace of business—providing for a smooth transition that ultimately funds your buyout.

SET UP AN EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

These enable your employees to become owners through a qualified retirement plan and to purchase stock in your company. According to the National Center for Employee Ownership, about two-thirds of ESOPs are used to provide a market for the shares of a departing owner.

PURSUE AN OUTSIDE SALE

If opportunity knocks on your door and the right buyer finds you, you may be able to sell your business at a premium. Whether you plan to sell your business in two or 20 years, you can increase your odds of getting a great price by understanding the current and future value of your business and the ideal entity structure, then taking the time and steps required to get your business into sale-ready condition.

Ownership Transition

If you intend to exit or transition the business to new ownership, consider your planning options well in advance—not only because planning can be financially rewarding but also because it can give you peace of mind.

INTEGRATE YOUR BUSINESS AND PERSONAL STRATEGIES

A comprehensive plan will address business and personal financial planning, management succession, estate planning, and ownership transition together.

CONSULT WITH YOUR ADVISOR ON THE SALE OF A SUBSIDIARY

If you're considering the sale or transfer of a wholly owned subsidiary of your organization, determine with your advisor if the subsidiary has made any tax elections that would affect the taxability of the transfer. This is particularly important in situations involving a subsidiary that's either a single-member LLC or an S corporation.

About Moss Adams

With 2,900 professionals across 25-plus locations in the West and beyond, Moss Adams provides the world's most innovative companies with specialized accounting, consulting, and wealth management services to help them embrace emerging opportunity. Discover how Moss Adams is bringing more West to business.

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