First Mate
FINANCIAL ADVISORS, LLC

Year-End Tax Moves for 2016

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instructions
on page 16

One of our major goals is to help our clients identify opportunities that coordinate tax reduction with their investment portfolios. In order to achieve this goal, we stay current on ever-changing tax reduction strategies.On November 8, voters elected Donald Trump to serve as the 45th President of the United States. Comprehensive tax reform was one of his priorities, however, his ideas and proposal will not affect 2016 tax returns. This special report covers the details of numerous year-end tax strategies for 2016.

Remember—every situation is different and not all strategies will be appropriate for you. Please discuss all tax strategies with your tax preparer prior to making any final decisions.

Income Tax Rates for 2016

Tax brackets changed slightly for 2016. For example, for the 2015 tax year, the top of the 15% federal income tax bracket for married couples filing jointly was $74,900. In 2016, that figure increased to $75,300. Below is a table of federal income tax rates for 2016.

Federal Tax Rates		**Single**		**Head of Household**		**Married Filing Separately**		**Married Filing Jointly / Qualifying Widow or Widower**	
Ordinary Income	***Long Term Capital Gains and Qualified Dividends***	***Taxable Income over***	***to***	***Taxable Income over***	***to***	***Taxable Income over***	***to***	***Taxable Income over***	***to***
10%	**0%**	$0	$9,275	$0	$13,250	$0	$9,275	$0	$18,550
15%	**0%**	9,276	37,650	13,251	50,400	9,276	37,650	18,551	75,300
25%	**15%**	37,651	91,150	50,401	130,150	37,651	75,950	75,301	151,900
28%	**15%**	91,151	190,150	130,151	210,800	75,951	115,725	151,901	231,450
33%	**15%**	190,151	413,350	210,801	413,350	115,726	206,675	231,451	413,350
35%	**15%**	413,351	415,050	413,351	441,000	206,676	233,475	413,351	466,950
39.6%	**20%**	415,051	--	441,001	--	233,476	--	466,951	--

Year End Tax Planning For 2016

As you read through this report you will find some key aspects of the current 2016 tax laws and how they may apply to your situation. The current Presidential election of Donald Trump brings forward some proposals that were announced on the campaign trail, but these are far from being law and will not affect 2016 tax returns. Late-breaking rules and decisions in Washington, D.C.always make it difficult to plan ahead and this year investors must still waitto see if there are any final opportunities or challenges.

The ***Protecting Americans from Tax Hikes Act*** **(PATH Act)** passed in late 20

15 changed, revised and also made permanent some tax breaks that were previously in need of extension. Despite all the uncertainty surrounding future tax rules, there are many year-end tax moves that focus on income and expenses you can make to lessen your tax liability. To the extent that income or expenses can be moved or recognized in either 2016 or 2017 can make a difference for many investors.Year-end tax planning is often about determining the best year to earn additional income or to incur more tax deductions. Now is the time to focus on how to optimize your situation between these two years.

Things To Review Before Year-end

1. **Guestimate your tax rates (pg. 1)**
2. **Review your Retirement Savings options (pg. 2)**
3. **Consider Roth IRA conversions (pg. 3)**
4. **Review your Capital Losses and Gains (pg. 3)**
5. **Check if your Social Security is taxable (pg. 5)**
6. **Consider "bunching" your deductions (pg. 5)**
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11. **Review tax strategies with your tax preparer.**

The goal of this report is to share strategies that could be effective if considered and implemented before year-end. Choosing the appropriate strategies will depend on your income as well as a number of other personal circumstances. As with all tax strategies, it is always in your best interest to discuss your personal situation with your tax preparer before making any moves or final decisions.

While everyone's situation is unique, please begin your final year-end planning now!

Consider All of Your Retirement Savings Options for 2016

If you have earned income or are working, retirement savers should consider contributing to retirement plans. This is an ideal time to make sure you maximize your intended use of retirement plans for 2016 and start thinking about your strategy for 2017. For many investors, retirement contributions represent one of the smarter tax moves that they can make.Here are some retirement plan highlights:

Think about
tomorrow
today

- **Higher 401(k) contribution limits.**The elective deferral (contribution) limit for employees under the age of 50 who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is $18,000. The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is an additional $6,000 ($24,000 total).**As a reminder, these contributions must be made in 2016.**

- **IRA contribution limits unchanged.** The limit on annual contributions to an Individual Retirement Arrangement (IRA) remains unchanged at $5,500. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains $1,000 (for a total of $6,500).**IRA contributions can be made all the way up to the April 17, 2017 filling deadline (the 15th is on a Saturday).**

- **Higher IRA income limits.** The deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes (AGI) of $61,000 and $71,000 for 2016. For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range is 98,000 to $118,000 for 2016. For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out in 2016 as the couple's income reaches $184,000 and completely at $194,000 for 2016. For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is $0 to $10,000 for 2016.**Please keep in mind, if your earned income is less than your eligible contribution amount, your maximum contribution amount equals your income.**

- **Increased Roth IRA income cutoffs.** The AGI phase-out range for taxpayers making contributions to a Roth IRA is $184,000 to $194,000 for married couples filing jointly in 2016. For singles and heads of household, the income phase-out range is $117,000 to $132,000 in 2016. For a married individual filing a separate return, the phase-out range is $0 to $10,000 for 2016.**Please keep in mind, if your earned income is less than your eligible contribution amount, your maximum contribution amount equals your income.**

- **Larger saver's credit threshold**. The AGI limit for the saver's credit (also known as the Retirement Savings Contribution Credit) for low- and moderate-income workers is $61,500 for married couples filing jointly in 2016, $46,125 for heads of household, $30,750 for all other filers.

- **Be careful of the IRA one rollover rule**. IRA investors were always limited to one rollover per year, per IRA. Investors are still limited to make only one rollover from **all**of their IRAs to another in any 12-month period. A second IRA-to-IRA rollover in a single year could result in income tax becoming due on the rollover, a 10 percent early withdrawal penalty, and a 6 percent per year excess contributions tax as long as that rollover remains in the IRA. Individuals can only make one IRA rollover during any one-year period, but there is no limit on trustee-to-trustee transfers. Multiple trustee-to-trustee transfers between IRAs and conversions from traditional IRAs to Roth IRAs are allowed in the same year**. If you are rolling over an IRA or have any questions on this, please call us.**

Roth IRA Conversions

Some IRA owners are considering converting part or all of their traditional IRAs to a Roth IRA. This is never a simple and easy decision. Roth IRA conversions can be helpful, but they can also create immediate tax consequences and can bring additional rules and potential penalties. It is best to run the numbers with a qualified professional and calculate the most appropriate strategy for your situation.**Call us if you would like to review your Roth IRA conversion options.**

Capital Gains and Losses

CAPITAL
GAINS
TAX

Looking at your investment portfolio can reveal a number of different tax saving opportunities. Start by reviewing the various sales you have realized so far this year on stocks, bonds and other investments. Then review what's left and determine whether these investments have an unrealized gain or loss. (Unrealized means you still own the investment and haven't yet sold it, versus realized, which means you've actually sold the investment.)

Know your basis. In order to determine if you have unrealized gains or losses, you must know the tax basis of your investments, which is usually the cost of the investment when you bought it. However, it gets trickier with investments that allow you to reinvest your dividends and/or capital gain distributions. We will be glad to help you calculate your cost basis.

Consider loss harvesting. If your capital gains are larger than your losses, you might want to do some "loss harvesting." This means selling certain investments that will generate a loss. You can use an unlimited amount of capital losses to offset capital gains. However, you are limited to only $3,000 if married filing jointly ($1,500 if married filing separately) of net capital losses that can offset other income, such as wages, interest and dividends. Any remaining unused capital losses can be carried forward into future years indefinitely.

Be aware of the “wash sale” rule. If you sell an investment at a loss and then buy it right back, the IRS disallows the deduction. The “wash sale” rule says you have to wait at least 30 days before buying back the same security in order to be able to claim the original loss as a deduction. The deduction is also disallowed if you bought the same security within 30 days before the sale. However, while you cannot immediately buy a substantially identical security to replace the one you sold, you can buy a similar security—perhaps a different stock in the same sector. This strategy allows you to maintain your general market position while utilizing a tax break.

Sell worthless investments. If you own an investment that you believe is worthless, ask your tax preparer if you can sell it to someone other than a related party for a minimal amount, say $1, to show that it is, in fact, worthless. The IRS often disallows a loss of 100% because they will usually argue that the investment has to have at least some value.

Always double check brokerage firm reports. If you sold a stock in 2016, the brokerage firm reports the basis on an IRS Form 1099-B in early 2017. Unfortunately, sometimes therecould be problems when reporting your information, so we suggest you double-check these numbers to make sure that the basis is calculated correctly and does not result in a higher amount of tax than you need to pay.

Zero Percent Tax on Long-term Capital Gains

You may qualify for a 0% capital gains tax rate for some or all of your long-term capital gains realized in 2016.

0% Capital Gains Tax Rates for 2016 Taxes Applies To

Filing status	Maximum taxable income
Single or married filing separately	$37,650
Married filing jointly	$75,300

Source: www.thebalance.com

The strategy is to figure out how much long-term capital gain you might be able to recognize to take advantage of this tax break. The 0% long-term capital gains tax rate is for taxpayers who end up in the 10% or 15% ordinary income tax brackets, which is up to $37,650 for single filers and $75,300 for joint filers. If your taxable income goes above this threshold, then any excess long-term capital gains will be taxed at a 15% capital gains tax rate and/or 20% capital gains tax rate, depending on how high your taxable income is for the year.

NOTE: The 0%, 15% and 20% long-term capital gains tax rates only apply to “capital assets” (such as marketable securities) held longer than one year. Anything held one year or less is considered a “short-term capital gain” and is taxed at ordinary income tax rates.

If you are eligible for the 0% capital gains tax rate, it might be a good time to consider selling some appreciated investments to take advantage of it. Sell just enough so your gain pushes your income to the top of the 15% tax bracket, then buy new shares in the same company. The “wash sale” requirement to wait 30 days does not apply for gains. With “gains harvesting,” you can actually sell the stock and buy it back on the same day. Of course, there will be transaction costs such as commissions and other brokerage fees. At the end of the day you will have the same number of shares, but with a higher cost basis. Please remember, you must also review your state income tax rules to determine whether or not these gains will be tax-free at the state level.

This strategy might be helpful if in 2016 you are temporarily unemployed, are someone whose income varies from year to year or are between the ages of 55 and 70 and may soon be transitioning into retirement or already retired.

If you’re ineligible for the 0% capital gains tax rate but you have adult children in the 0% bracket, consider gifting appreciated stock to them. Your adult children will pay a lot less in capital gains tax than if you sold the stock yourself and gifted the cash to them (make sure the Kiddie tax doesn’t apply—e.g. students up to age 23).

Medicare Tax

In 2016, a 3.8% Medicare surtax on “net investment income” remains in place for wealthy taxpayers. The 3.8% Medicare surtax is on top of ordinary income and capital gains taxes, meaning long-term capital gains and qualified dividends may be subject to taxes as high as 23.8%, while short-term capital gains and other investment income (such as interest income) could be taxed as high as 43.4%!

The Medicare surtax is imposed only on “net investment income” and only to the extent that total “Modified Adjusted Gross Income” (“MAGI”) exceeds $200,000 for single individuals and $250,000 for taxpayers filing joint returns. Not all income is subject to this Medicare Tax. For example, interest and dividends are included and wages are not. Check with your tax preparer if you are subject to this tax and we can discuss future planning.

Taxation of Social Security Income

Social Security income may be taxable, depending on the amount and type of other income a taxpayer receives. If a taxpayer only receives Social Security income, this income is generally not taxable (and it is possible that the taxpayer might not even need to file a federal income tax return).

If a taxpayer receives other income in addition to Social Security income, then up to 85% of the Social Security income could be taxable. There is a “floor” ($32,000 married filing jointly; $0 married filing separately; $25,000 all other taxpayers) whereby a portion of Social Security benefits become taxable and the 85% inclusion kicks in once provisional income goes above a “ceiling” ($44,000 married filing jointly; $0 married filing separately; $34,000 all other taxpayers).For married taxpayers filing a joint return and for married persons filing separately who do not live apart from their spouses for the whole year, the “provisional income” threshold is $0. A complicated formula is necessary to determine the amount of Social Security income that is subject to income tax. (We suggest using the worksheet in IRS Publication 915 to make this determination.)

Finally, it is important to note that Social Security income is included in the calculation of “Modified Adjusted Gross Income” (“MAGI”) for purposes of calculating the 3.8% Medicare surtax on “net investment income” (as discussed earlier). Therefore, taxpayers having significant net investment income might have more reason to defer Social Security benefits.

Itemized Deductions & Exemptions

Taxpayers are entitled to take either a standard deduction or itemize their deductions on IRS Form 1040, Schedule A. Itemized deductions include, but are not limited to, mortgage interest, certain types of taxes, charitable contributions and medical expenses. Unfortunately, itemized deductions are subject to several limitations. For example, in 2016 medical expenses are deductible only to the extent that they exceed 10% of AGI this year. **However, if you or your spouse are over 65, the deduction limit is still at 7.5% until December 31, 2016.**

Consider “bunching” your deductions. Many taxpayers don’t have enough itemized deductions to reduce their taxes more than if they take the standard deduction. If you find you often miss the threshold by only a small amount per year, it may be best to “bunch” your deductions every other year, taking a standard deduction in the alternate years. The standard deduction for 2016 is $6,300 for singles, $6,300 for married persons filing separate returns, $9,300 for heads of households and $12,600 for married couples filing jointly.

Charitable Giving

This is a great time of the year to clean out your garage and give your items to charity. Please remember that you can only write off these donations to a charitable organization if you itemize your deductions. Sometimes your donations can be difficult to value. **You can find estimated values for your donated clothing at http://turbotax.intuit.com/personal-**

taxes/itsdeductible/. Send cash donations to your favorite charity by December 31, 2016, and be sure to hold on to your cancelled check or credit card receipt as proof of your donation. If you contribute $250 or more, you also need a written acknowledgement from the charity.

If you plan to make a significant gift to charity this year, consider gifting appreciated stocks or other investments that you have owned for more than one year. Doing so boosts the savings on your tax returns. Your charitable contribution deduction is the fair market value of the securities on the date of the gift, not the amount you paid for the asset, and therefore you avoid having to pay taxes on the profit!

Do not donate investments that have lost value. It is best to sell the asset with the loss first and then donate the proceeds, allowing you to take both the charitable contribution deduction and the capital loss. Also remember, if you give appreciated property to charity, the unrealized gain must be long-term capital gain in order for the entire fair market value (FMV) to be deductible. (The amount of the charitable deduction must be reduced by any unrealized ordinary income, depreciation recapture and/or short-term gain.)

The laws allowing taxpayers age 70½ and older to transfer up to $100,000 directly from their IRA over to a charity, satisfying all or part of the required minimum distribution (RMD) were made permanent in 2015. If you want to do this please make sure it is done before year end.

Other Year-End Tax Strategies and Ideas

Make use of the annual gift tax exclusion. You may gift up to $14,000 tax-free to each person in 2016. These “annual exclusion gifts” do not reduce your lifetime gift tax exemption.*(**NOTE**: The annual exclusion gift is doubled to $28,000 per recipient for joint gifts made by married couples or when one spouse consents to a gift made by the other spouse.)*

Help someone with medical or education expenses. There are opportunities to give unlimited tax-free gifts when you pay the provider of the services directly. The medical expenses must meet the definition of deductible medical expenses. Qualified education expenses are tuition, books, fees, and related expenses but not room and board. You can find the detail qualifications in IRS Publications 950 and the instructions for IRS Form 709, which are available for free at www.irs.gov.

Contribute to a 529 plan on behalf of a beneficiary. This qualifies for the annual gift-tax exclusion. Withdrawals (including earnings) used for qualified education expenses (tuition, books and computers) are income tax free. The tax law even allows you to give the equivalent of five years’ worth of contributions up front with no gift-tax consequences. Non-qualifying distribution earnings are taxable and subject to a 10% tax penalty.

Make gifts to trusts. These gifts often qualify for the annual exclusion ($14,000 in 2016) if the gift is direct and immediate. A gift that meets all the requirements removes the property from your estate. The annual exclusion gift can be contributed for each beneficiary of a trust. We are happy to review the details with your estate planning attorney.

If possible, prepare a tax projection for 2016 and 2017 to determine if you will have a change in your tax situation. Then consider the following strategies if they apply to your situation.

If your income is higher this year than you expect for next year, consider... Deferring Income and Accelerating Deductions	If your income is lower this year than you expect for next year, consider… Accelerating Income and Deferring Deductions
Asking to receive bonuses next year instead of this year.	Asking to receive bonuses this year instead of next year
Holding off on selling any investments with capital gains (especially those that are short term) that you cannot offset till next year.	Selling any investments with capital gains if you are in the 0% (or maybe even 15%) capital gains rates.
Hold off till January any IRA distributions you can if your tax rate will be lower next year.	Accelerating, if possible, any necessary IRA distributions this year if your tax rate will be higher next year.

Prepaying any deductible bills like property tax (if possible) this year.	Deferring the paying of any deductible bills like property tax (if possible) to next year.
If applicable, paying your fourth state estimated tax payment in December, rather than in January. This works well for taxpayers who will itemize their deductions and who aren't subject to the alternative minimum tax.	***As always, we suggest that you talk with your tax preparer prior to using any of the deduction and exemption strategies we have mentioned.***

It is important to note that some itemized deductions (such as state income taxes, real estate taxes and miscellaneous itemized deductions) are not allowed when computing the “Alternative Minimum Tax” (“AMT”). If you are subject to the AMT, it is often best to delay payment on the disallowed deductions and push them off until 2017 or later tax years (when AMT is no longer an issue). It is always possible you might be able to use the deductions next year. Therefore, we suggest that you talk with your tax preparer about AMT prior to using any of the deduction and exemption strategies we have mentioned.

Popular PATH Act Permanent “Extenders”

American Opportunity Tax Credit. The PATH Act made the American Opportunity Tax Credit (AOTC) permanent. The AOTC is equal to 100% of the first $2,000 of qualified tuition and related expenses, plus 25% of the next $2,000 of qualified tuition and related expenses.

Teachers’ classroom expense deductions. The PATH Act permanently extended the above-the-line deductions of up to $250 for elementary and secondary school administrators’ and teachers’ classroom expenses. Eligible educators (such as teachers, administrators and others) may claim this above-the-line deduction in lieu of a miscellaneous itemized deduction.

State and local sales tax deduction. The PATH Act made permanent the itemized deduction for states and local general sales taxes. That deduction may be taken in lieu of state and local income taxes when itemizing deductions.

PATH Act “Extenders” Expiring at the End of 2016

Tuition for fee deductions. The PATH Act extended the above-the-line deduction for qualified tuition and related expenses for two years, for expenses paid before January 1, 2017. The maximum amount of the tuition and fee deductions is $4,000 for an individual whose AGI for the tax year does not exceed $65,000 ($130,000 in the case of a joint return) or $2,000 for other individuals whose AGI does not exceed $80,000 ($160,000 in the case of a joint return).

Mortgage insurance premium deductions. The PATH Act extended the treatment of qualified mortgage insurance premiums as qualified residence interest proactively for two years, to apply to amounts paid or accrue through 2016 and not properly allocable to a period after December 31, 2016.

President-elect Trump’s Tax Positions

While campaigning for the position of President, Donald Trump shared some views of his tax position. President-elect Trump stated that comprehensive tax reform to significantly lower individual and business tax rates was one of his top priorities. According to CCH’s Tax Briefing, his proposals included a simpler tax system with 3 tax brackets: 12, 25 and 33%. He also shared that he would recommend no change in capital gains rates and a repeal of the 3.8% Medicare Tax. Another item discussed was capping deductions at $100,000 for single filers and $200,000 for joint returns. Many experts feel that tax reform will advance in 2017. Remember, ideas and proposals are far from actual laws, but with a Republican Senate and House, change is considered possible and as things become finalized we will keep you updated.

Conclusion

One of our primary goals is to keep clients aware of tax law changes and updates. This report is not a substitute for using a tax professional. Please note that many states do not follow the same rules and computations as the federal income tax rules. Make sure you check with your tax preparer to see what tax rates and rules apply for your particular state.

Two life events that could affect your tax situation are marriage and retirement. Marital status (single, married or divorced) for the entire tax year is determined on December 31st. Because the income tax brackets vary depending upon filing status, a marriage penalty or a marriage benefit may result for any particular couple. Retiring taxpayers may want to take a look at a number of different provisions at year-end in anticipation of retiring, at the point of retirement, or after retirement. Many of these provisions have opportunities and deadlines keyed to the tax year. One thing to watch closely by year-end is the Minimum Distribution Requirements. Most retirement arrangements (other than Roth IRAs) require that participants begin to take annual payments of benefits in the year they turn age 70½. While distributions generally must be made at the end of the calendar year, distributions for the first year can be delayed until April 1 of the succeeding year. **If you have questions about your Required Minimum Distributions, please call us.**

There are many other additional tax reduction strategies that will vary depending on your financial picture. We encourage all of our clients and prospects to come in so that we can review your particular situation and hopefully take advantage of those tax rules that apply to you.

Fun Tax Facts

England introduced a tax onhats in 1784. To avoid the tax, hat-makers stopped calling their creations "hats", leading to a tax on any headgear by 1804. The tax was repealed in 1811.

In New Mexico, people over 100 years old are tax-exempt, but only if they are not dependents.

Source: efile.com

Has your financial advisor discussed the tax planning ramifications of your investments?

If not, we would like to offer you a complimentary financial consultation.

Please call Jeri at (918)794-5544 and we'd be happy to assist you!

As always, we appreciate the opportunity to assist you in addressing your financial matters and look forward to seeing you soon!

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