YEAR-END TAX PLANNING CONSIDERING THE TAX CUT & JOBS ACT BILL

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Job:

- Managing Member of Green, Neuschwander & Manning, LLC, a tax and accounting firm catering to traders and investment managers. CEO of GreenTraderTax.com.

Focus on traders:

- Trading is a real profession, and other tax professionals and solution providers underserve them. Traders deserve tax advice from CPAs and tax attorneys who are acutely aware of different tax laws and regulations that apply to them.

Robert Green’s content

- Mr. Green is a leading authority on trader tax. He is the author of Green’s 2017 Trader Tax Guide, which GreenTraderTax published as an annual tax guide every year since 1997.

- Mr. Green has been a contributor to Forbes.com since 2010. Mr. Green wrote the “Business of Trading” column for Active Trader magazine for 14 years until the magazine closed in 2015. Leading brokerage firms and other financial media feature Mr. Green's blog posts and Webinar content.

Robert Green’s media

- Mr. Green is frequently interviewed and has appeared in Barron’s, New York Times, Wall Street Journal, and several other media. Mr. Green has also appeared on CNBC, Bloomberg Television, and Forbes.com Video Network.

- Mr. Green is the chief tax speaker at Traders Expo and taught “Trader Tax 101” for CCH to tax professionals.

Webinar disclaimers

- This information is educational. It is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. Where specific advice is necessary or appropriate, you may wish to consult with a qualified tax advisor, CPA, attorney, financial planner, or investment manager.
- Robert A. Green and the Green companies are not affiliated with Interactive Brokers.
- I prepared this presentation based on 2017 tax law and the House Tax Cut & Jobs Act (H.R.-1 bill) released on Nov. 2, and primarily effective for 2018.

Tax planning overview

- As tax reform advances through Congress, it’s safe to assume your tax rates may be lower in 2018 and some of your expenses will likely be repealed to pay for tax rate cuts.
- It’s probably wise to use the time-honored strategy of deferring income and accelerating payments to deduct them while you can.
- Even if Congress fails to pass tax reform, you’ll benefit from the time value of money.

THE TAX CUT & JOBS ACT (H.R.-1)

The House released H.R.-1 on Nov. 2, 2017. It’s important to consider this bill when doing 2017 year-end tax planning.

House & Senate tax reform bills

- The House released the “Tax Cut & Jobs Act” (H.R.-1 bill) on Nov. 2, 2017.

- Read my Nov. 5 blog posts about the House bill:
  - How The Tax Cut Bill Impacts Traders And Investment Managers.
  - Why The Tax Cut May Disappoint Owners Of Pass-Through Entities.

- The Senate is expected to release it’s tax reform bill this week, after I prepared this power point deck on Nov. 6.

The House tax bill repeals:

- Itemized deductions for state and local income, sales and personal property taxes, medical expenses, casualty losses, unreimbursed employee business expenses, and tax compliance fees.

- AGI deductions for alimony, moving expenses, student loan interest, and tuition expenses.

- A business deduction for entertainment expenses.

House bill modifies some itemized deductions

- Real property tax is limited to $10,000 per year.
- Mortgage interest is limited to a mortgage of $500,000 on new home acquisition debt originated on Nov. 2, 2017, or after, and only on the primary residence.
- Existing mortgages before Nov. 2 are subject to the prior limitation rules (up to $1,000,000 on a primary and second home and $100,000 for a home-equity loan).

DEDUCTIONS

The House tax bill repeals many deductions, and modifies others.

Itemized deductions

- In exchange for lowering business taxes, the House tax bill repeals many itemized deductions for individuals starting in 2018.
- The notable exceptions are investment expenses, investment interest expenses, capped real property taxes, capped mortgage interest expenses and charitable contributions.
- The House tax bill compensates for middle-income folks by doubling the standard deduction.
- You should try to pay all 2017 expenditures before year-end to get the deduction while you can and reduce 2017 income.

Miscellaneous itemized deductions

- The tax reform framework repeals tax compliance fees and unreimbursed employee business expenses deducted on Form 2106.
- You should try to pay service providers for 2017 services by year-end.
- Traders who are eligible for trader tax status (TTS) have business expense treatment, bypassing miscellaneous itemized deductions. Tax compliance is a business expense for them.

Employee business expenses

- Employees should submit expenses to employers for reimbursement before year-end since accountable plans have “use it or lose it” rules.
- Under current law, miscellaneous itemized deductions are deductible above a 2% AGI threshold, and they are not deductible for AMT.
- If your employer doesn’t have an accountable plan, encourage them to consider one for 2017 and 2018.

Accelerate state and local tax deductions

- The House tax bill repeals itemized deductions for state and local taxes including income, property and sales and use taxes.
- Real property taxes are capped at $10,000 per year for 2018, so if you have more, try to pay some in 2017.
- For 2017, you can elect to claim sales and use taxes as an itemized deduction instead of state income taxes.

Pay state income taxes in 2017

- The House tax bill repeals state and local income tax deductions and AMT starting in 2018, so your best chance at a deduction might be to pay state and local income taxes due by Dec. 31, 2017.
- This is a change from previous tax years when individuals may have postponed state and local taxes to avoid AMT.
- Be sure to check the latest developments on tax reform before you make this decision close to Dec. 31 since there is blowback on the repeal of state and local taxes, and there could be more changes.

Casualty loss deductions

- The House bill repeals the casualty loss itemized deduction for 2018, so try to complete your claims to support a 2017 tax deduction.

- The 2017 disaster tax relief bill for Hurricanes Harvey, Irma and Maria victims exempts qualified disaster-related personal casualty losses from the 10% AGI threshold.

- Hurricane victims also don't have to itemize; they can add this casualty loss to their standard deduction, and that part is deductible for AMT.

Maximize charitable contributions

- You should make tax-deductible donations before year-end by check and credit card.
- Property donations of clothing, household goods, and appreciated securities can also be deducted.
- The itemized deduction is calculated based on fair market value (FMV), or another acceptable method.
- When you deduct the FMV of appreciated securities, you avoid capital gains taxes.

Make charitable contributions from IRA

- The IRS permits individuals age 70½ or older to make charitable gifts up to $100,000 per person, per year, directly from their IRAs.
- The strategy is more tax efficient than taking an income distribution and potentially losing some of the deduction with the Pease itemized deduction limitation for upper-income taxpayers or using the standard deduction.
- The charitable donation amount also counts toward meeting the required minimum distribution (RMD) rule.

Other itemized-deduction limitations

- Upper-income individuals should be aware of the 2017 Pease itemized deduction limitation, indexed for inflation: $261,500 single and $313,800 married filing joint for 2017. It wipes away many of your itemized deductions. (The House tax bill repeals the Pease limitation for 2018.)

- The AGI percentage threshold for medical expenses is 10% for 2017. (The House tax bill repeals medical expenses for 2018).

- Investment interest expenses are limited to investment income, and an investment interest carryover likely will be beneficial in 2018 since the House bill does not repeal it.

CAPITAL GAINS AND WASH SALE LOSSES

Investors and traders should manage income with tax loss selling and wash sale loss adjustments.

House bill does not change capital gains

- The House tax bill retains long-term capital gains rates (up to 20%), including on qualified dividends and the 60% long-term capital gains portion of Section 1256 “60/40” capital gains rates.

- The bill does not change:
  - Section 1091 wash sale loss adjustments,
  - Section 475 MTM ordinary gain or loss treatment, and
  - Section 988 forex ordinary loss treatment and the forex capital gains election.

Tax loss selling

- A taxpayer with capital gains can reduce taxes by selling losing securities positions, realizing capital losses, before year-end.

- This continues to be a smart strategy in 2017, however, if you already have a $3,000 capital loss limitation, tax loss selling won’t help.

- Avoid wash sale loss transactions (see below).

Wash sale loss adjustments

- Be careful not to trigger a wash sale loss adjustment at year-end by buying back a substantially identical position 30 days before or after realizing a tax loss on a security.

- In a taxable account, a wash sale loss adjustment from December is deferred to January, adding the tax loss to the replacement position's cost basis.

- It accelerates income, when your plan may be to delay income. Congress doesn't want taxpayers to realize "tax losses" that are not "economic losses."

Avoid wash sale losses with IRAs

- If you realize a tax loss in an individual taxable account and buy back a substantially identical position in a traditional IRA or Roth IRA, you will never get the benefit of that tax loss.

- Avoid this catastrophic problem with “Do Not Trade Lists” between your IRA and taxable accounts.

Break the chain on wash sales

- In taxable accounts, avoid wash-sale loss adjustments at year-end by “breaking the chain.”
- Sell open positions and don’t get back into substantially identical positions for 30 days before and after selling them.
- For example, sell the entire position on Dec. 15 and don’t repurchase it until Jan. 16.
- In December, use trade accounting software to identify potential wash sale loss adjustments so you can break the chain before year-end.

Broker and taxpayer rules are different

- Don't solely look at a broker's tax report or 1099-B for identifying potential wash sale losses.

- The IRS requires taxpayers to assess wash sales across *all* brokerage accounts, whereas, brokers only look at a single brokerage account.

- Brokers calculate wash sales based on an exact symbol (identical position), whereas, taxpayers must assess wash sales on "substantially identical positions," an equity and its equity options, at different expiration dates.

Mark-to-market accounting

- Section 1256 contracts, which include futures and broad-based indexes, and Section 475 trades for traders with trader tax status (TTS), are both mark-to-market (MTM) code sections.
- MTM imputes sales of open positions at year-end, so you are reporting realized and unrealized gains and losses.
- MTM negates the need to do tax loss selling.
- MTM comes with Section 1256 by default, and Section 1256 is capital gain and loss treatment.

Section 475 MTM

- Individual TTS traders had to elect Section 475 ordinary gain or loss treatment for 2017 by April 18, 2017, or have elected it in a prior year.
- Existing partnerships and S-Corps had to elect it by March 15, 2017.
- The next opportunity to file a Section 475 election is for 2018, or within 75 days of inception for a new entity. (It’s too late in the year to establish a new TTS entity for 2017.)
- I call Section 475 “tax loss insurance” because it exempts traders from the capital loss limitation and wash sale loss adjustments.

Net investment tax

- Many investors hoped Republicans would repeal the Obamacare 3.8% net investment tax (NIT) on unearned income, but they retained NIT in the healthcare bills and the House tax bill.

- Consider reducing income under the thresholds for triggering NIT (modified AGI of $200,000 single, $250,000 married, and not indexed for inflation), or defer net investment income to 2018.

MARGINAL TAX BRACKETS

Manage your income to avoid the top tax rates

Try to be eligible for middle-income tax benefits

- Each of these tax breaks has different adjusted gross income (AGI) phase-out ranges.
- Try to reduce your 2017 AGI to maximize deductions for education, and student loan interest, increase child care credits and the personal exemptions, and lower AMT and NIT taxes. (The House tax bill consolidates education credits and repeals personal exemptions and AMT for 2018.)
- You may need to prepare a draft 2017 tax return to see where you stand on all these moving parts.

Avoid the highest individual ordinary tax rate

- Upper-income individuals should try to avoid the top tax bracket of 39.6% for 2017, which starts at taxable income of $418,400 for single filers and $470,700 for married filers.

- The House tax bill retained this top rate for 2018, but raised the bracket to $500,000 single and $1M married. That reduces the marriage penalty.

- See the House tax bill for all the 2018 brackets.

Maximize use of the 0% LT capital gains rates

- Long-term capital gain rate brackets correlate with ordinary rates for 2017.

- The 20% capital gains rate applies in the 39.6% ordinary-income tax bracket.

- The 15% capital gains rate applies to ordinary rates over 15% and under 39.6%.

- The 0% capital gains rate applies for the 10% and 15% ordinary brackets. If you are in the 10% and 15% ordinary tax brackets, try to sell long-term capital gains before year-end to take advantage of zero capital gains taxes.

Section 1256 60/40 capital gains rates

- There's a long-term capital gains rate component in Section 1256 contracts: 60% long-term capital gains and 40% short-term capital gains.
- The blended 60/40 capital gains rate for the 10% bracket is 4%, and for the 15% bracket, it's 6%.
- There is no sense in postponing income if you can pay such a low tax rate.

IRA, SOLO 401(K), EMPLOYEE BENEFIT PLANS AND ESTIMATED TAX

Maximize retirement plan deductions for greater tax savings. Deal with estimated tax rules to avoid underpayment penalties.

Required minimum distributions (RMD)

- Take RMDs from traditional IRA, Solo 401(k) plan, and employer retirement plans.
- Commence RMDs by April 1 of the year following the calendar year in which you reach age 70½.
- Otherwise, you may have to pay a 50% excise tax on the amount not distributed, as required.

Avoid estimated tax underpayment penalties

- Many traders and small business owners don't pay quarterly estimated taxes in Q1, Q2, and Q3 since they might lose significant money in Q4, so strategies to avoid underpayment penalties are helpful.

- Consider increasing federal and state tax withholding on paychecks before year-end as the IRS and states treat W-2 tax withholding as being made throughout the year.

Fully fund health plans

- If you have a Health Savings Account, be sure to pay the maximum allowed contribution for 2017 before year-end. (Self-only is $3,400, family coverage is $6,750, and $1,000 catch-up contributions are allowed for age 55 or older.)

- Increase your employer's health flexible spending account for 2018 if you had too little funding in 2017.

Maximize retirement plan deductions

- TTS traders with an S-Corp should consider establishing a Solo 401(k) before year-end 2017.
- It combines a 100% deductible “elective deferral” (ED) contribution of $18,000 for 2017 with a 25% deductible profit-sharing plan contribution.
- There is also an ED “catch-up provision” of $6,000 for 2017 for taxpayers age 50 and over.
- Together, the maximum tax-deductible contribution limit for a defined contribution plan is $54,000 for 2017, and $60,000 for 2017 including the catch-up provision.

Roth IRA conversion

- If you’re in a low tax bracket for 2017 and expect to be in a higher tax bracket for subsequent years, including retirement years, consider a Roth IRA conversion before year-end 2017. Roth IRAs are permanently tax-free, whereas traditional IRAs are only temporarily tax-free.
- If the Roth IRA account substantially drops in value after the conversion date, you can reverse the conversion by Oct. 15, 2018.
- The House tax bill repeals the reversal option for 2018 Roth conversions.

CLOSING REMARKS, QUESTIONS & ANSWERS

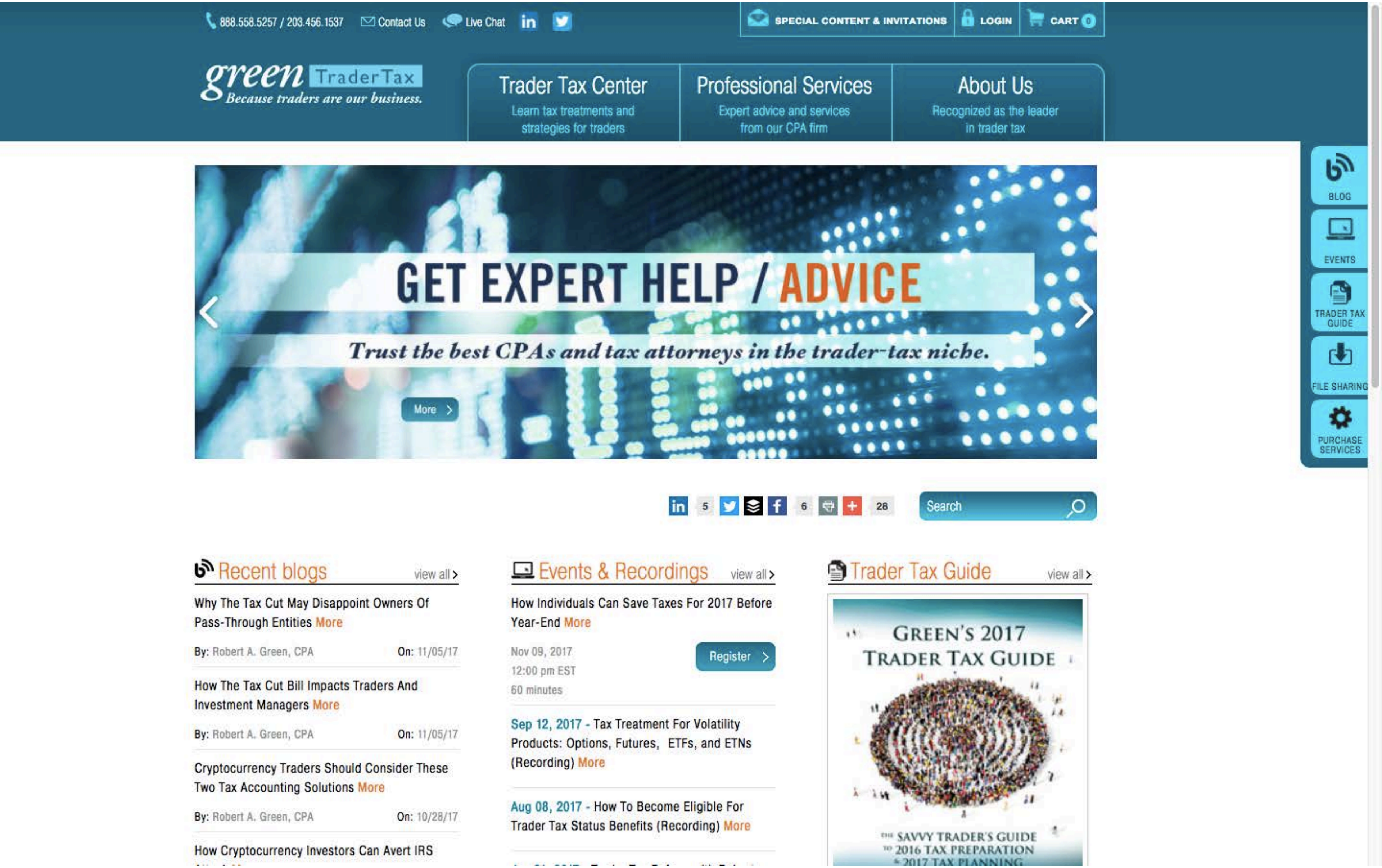
GreenTraderTax will have a year-end tax planning Webinar for business entities by early December.

Closing Remarks

- Thank you for attending this Webinar or watching the recording at IB.

- Visit www.GreenTraderTax.com for additional information.

- Call us toll free at 888.558.5257 or 203.456.1537
- Chat with us.
- Email us your questions at info@greentradertax.com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