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Client Newsletter

Gittelman & Company, P.C.
Certified Public Accountants
Management Consultants

"Tomorrow's knowledge today"

A Quality Professional Services Organization Servicing Clients for More Than 32 Years:

- Accounting and auditing
- Tax planning and return preparation
- Business consulting and valuation services
- Litigation support and forensic accounting services

2016 Firm Highlights

Mark I. Gittelman, CPA, MS

On October 18, 2016, Gittelman & Company, P.C. celebrated our 32nd year of providing professional services. 2016 was an excellent year for our firm and a steady year for many of our clients.

During 2016, Sean Faust joined our professional staff. Sean is a recent graduate of Clemson University and has 3 years of public accounting experience. We welcome Sean and our clients will enjoy working with him.

We are all anxious to see the results of our Presidential Election. Each candidate poses a unique and very different view of the course of future tax legislation. We will watch carefully as developments occur and keep you fully updated should legislation become law.

As we approach 2017, we again want to thank our clients and staff for 32 years of continued success! Continued good health, prosperity and happiness in the year to come!

"In October of 2016, Gittelman & Company celebrated our 32nd year of providing professional services."

Inside this Issue:

Cost of Living Increases for 2017

The Government recently announced the following cost of living increases for 2017. Many remain unchanged from 2016:

1. The limitation on the annual benefit under a defined benefit plan increases from $210,000 in 2016 to $215,000 in 2017.
2. The annual compensation limit for additions to money purchases and SEP plans increases from $265,000 in 2016 to $270,000 for 2017.
3. Elective deferrals to 401(k) plans remains at $18,000 in 2017. The catch-up contribution for individuals age 50 also remains at $6,000 for 2017.
4. The limitations for contributions to deferred contribution and SEP plans increases from $53,000 in 2016 to $54,000 in 2017.
5. The maximum deferral under simple retirement accounts remains at $12,500 for 2017 with a catch up of $3,000 for individuals age 50 or over.
6. IRA contributions (including Roth IRA's) remain at $5,500 for 2017 and $1,000 for catch up contributions for individuals age 50 or over.
7. Wages subject to social security tax increase to $127,200 in 2017 from $118,500 in 2016.
8. For gifts made in 2017, the gift tax annual exclusion remains at $14,000 ($28,000 for married couples).
9. The Estate Tax Exclusion is $5,490,000 for 2017, increased from $5,450,000 in 2016.
10. The foreign income exclusion for those taxpayers living outside the USA will increase to $102,100 for 2017 (up from $101,300 in 2016).

"Clients should be aware of the cost of living increases for 2017."

Recent Developments That May Affect Your Tax Situation

The following is a summary of important tax developments that have occurred in the past three months that may affect you, your family, your investments, and your livelihood. Please call us for more information about any of these developments and what steps you should implement to take advantage of favorable developments and to minimize the impact of those that are unfavorable.

Proposed regulations would close family business estate/gift tax loopholes. In August, the IRS issued new proposed regulations that would close two estate and gift tax loopholes. These complex loopholes treat the lapse of certain rights in a family business as a transfer to family members, and value transfers of an interest in a family business to a family member without considering certain restrictions on that interest. Taxpayers or their estates owning closely held businesses or other entities have used these loopholes to lower the taxable value of their transferred assets and thereby minimize their estate or gift tax burden. There is still time to act, however, as the loopholes will remain open until final regulations are issued.

Loss deduction OK'd for estate that suffered Ponzi losses through an entity. The Tax Court has allowed an estate to claim a theft loss deduction for losses incurred by a limited liability company (LLC) in which it held a 99% interest. The LLC's sole asset was an account that, during the settlement of the case, became worthless as a result of Bernie Madoff's Ponzi scheme. The losses were allowed under a tax code provision (Sec. 2054) allowing estates a deduction for casualty losses incurred during the settlement of the estate, including losses arising from fires, storms, shipwrecks or other casualties, or from theft, if the losses are not compensated for by insurance or otherwise.

Final regulations encourage partial annuity option for pension plan payouts. Defined benefit (pension) plan participants are often confronted with a “cash or annuity” decision upon retirement. But, many employees may prefer a combination of options, for example, the payment of some benefit as a stream of income for life (to provide protection against the risk of outliving one's savings) and the rest of the benefit as a lump sum (to provide for liquidity). New final regulations allow defined benefit plans to simplify the treatment of certain optional forms of benefit that are paid partly in the form of an annuity and partly in a more accelerated form. The final regulations simplify the calculation of split benefits, making it easier for retirees to choose to receive part of their benefits as a lifetime stream of income.

New self-certification procedure for those who miss the 60-day rollover deadline. The IRS has provided a new self-certification procedure designed to help recipients of retirement plan distributions who, due to one or more specified reasons, inadvertently miss the 60-day time limit for properly rolling these amounts into another IRA (or other eligible retirement plan). The new self-certification procedure allows these taxpayers to claim eligibility for a waiver of the 60-day rollover requirement that can be relied upon by a plan administrator or IRA trustee in accepting and reporting receipt of the rollover contribution. The new procedure permits individuals to get rollover relief without having to follow a cumbersome private letter ruling request procedure.

IRS agrees that residence interest limits are applied separately for unmarried co-owners. The IRS has announced its acquiescence to a decision of the Court of Appeals for the Ninth Circuit that the limitations on deductions for qualified residence interest ($1 million of acquisition debt and $100,000 of home equity debt) are applied on a per-individual basis, and not a per-residence basis. Thus, the IRS now agrees that unmarried co-owners are collectively limited to a deduction for interest paid on a maximum of $2.2 million, rather than $1.1 million, of acquisition and home equity debt.

Finalized regulations explain when research credit is available for internal use software. As a general rule, except as provided by regulations, the research tax credit is not available for computer software that is developed by (or for the benefit of) the taxpayer primarily for its internal use. New final regulations carry an exception by providing that the research tax credit is available for the development of internal use software that meets a “high threshold of innovation test.” Under this test, internal use software can qualify for the credit if it is innovative, the software development involves significant economic risk, and the software is not commercially available for use by the taxpayer. Under the final regulations, part of the cost of computer software that is developed for both internal use and non-internal use (dual function computer software) also may be eligible for the credit.

Temporary regulations explain how to elect new partnership uniform audit rules. A law enacted in 2015 (The Bipartisan Budget Act of 2015, signed into law on Nov. 2, 2015) eliminated the TEFRA unified partnership audit rules (so-called because they were introduced in the Tax Equity And Fiscal Responsibility Act of '82) and the electing large partnership rules, and replaced them with streamlined partnership audit rules. The new rules are effective for returns filed for partnership tax years beginning after Dec. 31, 2017, but taxpayers can elect to apply them earlier. Now the IRS has issued temporary regulations explaining how a partnership may elect to have the new partnership audit rules apply to any partnership tax year beginning after Nov. 2, 2015 and before Jan. 1, 2018.

Simplified per-diem increase for post-Sept. 30, 2016 business travel. An employer may pay a per-diem amount to an employee on business-travel status instead of reimbursing actual substantiated expenses for away-from-home lodging, meal and incidental expenses (M&IE). If the rate paid doesn't exceed IRS-approved maximums, and the employee provides simplified substantiation, the reimbursement isn't subject to income- or payroll-tax withholding and isn't reported on the employee's Form W-2. In general, the IRS-approved per-diem maximum is the GSA per-diem rate paid by the federal government to its workers on travel status. This rate varies from locality to locality. Instead of using actual per-diems, employers may use a simplified “high-low” per-diem, under which there is one uniform per-diem rate for all “high-cost” areas within the continental U.S. (CONUS), and another per-diem rate for all other areas within CONUS. The IRS has released the “high-low” simplified per-diem rates for post-Sept. 30, 2016, travel. The high-cost area per-diem increases $7 to $282 (consisting of $214 for lodging and $68 for M&IE), and the low-cost area per-diem increases $4 to $189 (consisting of $132 for lodging and $57 for M&IE).

Gittelman & Company, P.C. Encourages Year-End Tax Planning

Tax laws remain staggeringly complicated. For 2016, the top federal income tax rate is 39.6%, but higher-income individuals can also be hit by the 0.9% additional Medicare tax on wages and self-employment income and the 3.8% Net Investment Income Tax (NIIT), which can both result in a higher-than-advertised marginal federal income tax rate.

Before we get to specific suggestions, here are two important considerations we at Gittelman & Company want our clients and friends to keep in mind.

1. Effective tax planning requires considering both this year and next year-at least. Without a multiyear outlook, you can't be sure maneuvers intended to save taxes on your 2016 return won't backfire and cost additional money in the future.
2. Be on the alert for the Alternative Minimum Tax (AMT) in all of your planning because what may be a great move for regular tax purposes may create or increase an AMT problem. There's a good chance you'll be hit with AMT if you deduct a significant amount of state and local taxes, claim multiple dependents, exercised incentive stock options, or recognized a large capital gain this year.

Here are a few tax-saving ideas to get you started. As always, you may wish to set up appointment with us to help you sort through the options and implement strategies that make sense for you.

Year-end Investment Moves

Depending on your taxable income, the 2016 federal income tax rates on long-term capital gains and qualified dividends are 0%, 15%, and 20%, with the maximum 20% rate affecting taxpayers with taxable income above $415,050 for single taxpayers, $466,950 for married joint-filing couples, and $441,000 for heads of households. High-income individuals can also be hit by the 3.8% NIIT which can result in a marginal long-term capital gains/qualified dividend tax rate as high as 23.8%. Still, that is substantially lower than the top regular tax rate of 39.6% (43.4% if the NIIT applies).

Holding on Longer Can Lower Your Taxes. If you hold appreciated securities in taxable accounts, owning them for at least one year and a day is necessary to qualify for the preferential long-term capital gains tax rates. In contrast, short-term gains are taxed at your regular rate, which can be as high as 39.6% (43.4%, if the NIIT applies). Be sure to consider this when evaluating your investment portfolio. Whenever possible, try to meet the more-than-one-year ownership rule for appreciated securities held in your taxable accounts. (Of course, while the tax consequences are important, they should not be the only consideration for making a buy or sell decision.)

Sell the Right Shares. Generally, when you sell stock or mutual fund shares, the shares you purchased first are considered sold first, which is good news if you are trying to qualify for the long-term capital gain rate. But, there may be situations where you're better off selling shares that have been held a year or less rather than those held longer. Selling recently purchased shares at little or no gain (because you purchased them at a higher price) may be better than selling shares held for more than one year if that sale would produce a significant gain. Whenever you want to sell shares other than those you purchased first, you must properly notify your broker as to the specific shares you want sold.

Harvest Capital Losses. Biting the bullet and selling some loser securities (currently worth less than you paid for them) before year-end can also be a tax-smart idea. The resulting capital losses will offset capital gains from other sales this year, including high-taxed short-term gains from securities owned for one year or less. For 2016, the maximum rate on short-term gains is 39.6%, and the 3.8% NIIT may apply too, which can result in an effective rate of up to 43.4%. However, you don't need to worry about paying a high rate on short-term gains that can be sheltered with capital losses (you will pay 0% on gains that can be sheltered).

If capital losses for this year exceed capital gains, you will have a net capital loss for 2016. You can use that net capital loss to shelter up to $3,000 of this year's high-taxed ordinary income ($1,500 if you're married and file separately). Any excess net capital loss is carried forward to next year.

Selling enough loser securities to create a bigger net capital loss that exceeds what you can use this year might also make sense. You can carry forward the excess capital loss to 2017 and beyond and use it to shelter both short-term gains and long-term gains recognized in those years. Note that New Jersey does not permit capital losses to be carried forward.

Gittelman & Company, P.C. Encourages Year-end Tax Planning (continued)

Secure a Deduction for Nearly Worthless Securities. If you own any securities that are all but worthless with little hope of recovery, you might consider selling them before the end of the year so you can capitalize on the loss this year. You can deduct a loss on worthless securities only if you can prove the investment is completely worthless. Thus, a deduction is not available, as long as you own the security and it has any value at all. Total worthlessness can be very difficult to establish with any certainty. To avoid the issue, it may be easier just to sell the security if it has any marketable value. As long as the sale is not to a family member, this allows you to claim a loss for the difference between your tax basis and the proceeds (subject to the normal rules for capital losses and the wash sale rules restricting the recognition of loss if the security is repurchased within 30 days before or after the sale).

Maximizing Nonbusiness Deductions

One way to reduce your 2016 tax liability is to look for additional deductions. Here's a list of Gittelman & Company favorites:

Make Charitable Gifts of Appreciated Stock. If you have appreciated stock that you've held more than a year and you plan to make significant charitable contributions before year-end, keep your cash and donate the stock (or mutual fund shares) instead. You'll avoid paying tax on the appreciation, but will still be able to deduct the donated property's full value. If you want to maintain a position in the donated securities, you can immediately buy back a like number of shares. (This idea works especially well with no load mutual funds because there are no transaction fees involved.)

However, if the stock is now worth less than when you acquired it, sell the stock, take the loss, and then give the cash to the charity. If you give the stock to the charity, your charitable deduction will equal the stock's current depressed value and no capital loss will be available. Also, if you sell the stock at a loss, you can't immediately buy it back as this will trigger the wash sale rules. This means your loss won't be deductible, but instead will be added to the basis in the new shares.

Maximize the Benefit of the Standard Deduction. For 2016, the standard deduction is $12,600 for married taxpayers filing joint returns. If you are single, the amount is $6,300 (unless you qualify as head of household, in which case it's $9,300). Currently, it looks like these amounts will be about the same for 2017. If your total itemized deductions are normally close to these amounts, you may be able to leverage the benefit of your deductions by bunching deductions in every other year. This allows you to time your itemized deductions so that they are high in one year and low in the next. You claim actual expenses in the year they are bunched and take the standard deduction in the intervening years.

For instance, you might consider moving charitable donations you normally would make in early 2017 to the end of 2016. If you're temporarily short on cash, charge the contribution to a credit card-it is deductible in the year charged, not when payment is made on the card. You can also accelerate payments of your real estate taxes or state income taxes otherwise due in early 2017. But, watch out for the AMT, as these taxes are not deductible for AMT purposes.

Manage Your Adjusted Gross Income (AGI). Many tax breaks are only available to taxpayers with AGI below certain levels. Some common AGI-based tax breaks include the child tax credit (phase-out begins at $110,000 for married couples filing jointly and $75,000 for heads-of-households), the $25,000 rental real estate passive loss allowance (phase-out range of $100,000-$150,000 for most taxpayers), and the exclusion of social security benefits ($32,000 threshold for married joint filers; $25,000 for most other filers). Also, for 2016 taxpayers with AGI over $311,300 for married joint filers, $259,400 for singles, and $285,350 for heads-of-households begin losing part of their personal exemptions and itemized deductions.

Accordingly, strategies that lower your income or increase certain deductions might not only reduce your taxable income, but also help increase some of your other tax deductions and credits. Managing your AGI can also help you avoid (or reduce the impact of) the 3.8% net investment income tax that potentially applies if your AGI exceeds $250,000 for joint returns, $200,000 for unmarried taxpayers.

Managing your AGI can be somewhat difficult, since it is not affected by many deductions you can control, such as deductions for charitable contributions and real estate and state income taxes. However, you can effectively reduce your AGI by increasing "above-the-line" deductions, such as those for IRA or self-employed retirement plan contributions. For sales of property, consider an installment sale that shifts part of the gain to later years when the installment payments are received or use a like-kind exchange that defers the gain until the exchanged property is sold. If you're age 70½ or older, consider making charitable contributions from your IRA, as discussed below. If you own a cash-basis business, delay billings so payments aren't received until 2017 or accelerate payment of certain expenses, such as office supplies and repairs and maintenance, to 2016. Of course, before deferring income, you must assess the risk of doing so.

Gittelman & Company, P.C. Encourages Year-End Tax Planning (continued)

Year-end Moves for Seniors Age 70½ Plus

Make Charitable Donations from Your IRA. IRA owners and beneficiaries who have reached age 70½ are permitted to make cash donations totaling up to $100,000 per individual IRA owner per year-$200,000 per year maximum on a joint return if both spouses make QCDs of $100,000-to IRS-approved public charities directly out of their IRAs. These so-called *Qualified Charitable Distributions,* or QCDs, are federal-income-tax-free to you, but you get no itemized charitable write-off on your Form 1040. That's okay because the tax-free treatment of QCDs equates to an immediate 100% federal income tax deduction without having to worry about restrictions that can delay itemized charitable write-offs. It also reduces your AGI. QCDs have other tax advantages, too. Contact us if you want to hear about them. Be careful-to qualify for this special tax break, the funds must be *transferred directly* from your IRA to the charity.

Take Your Required Retirement Distributions. Individuals with retirement accounts must generally take withdrawals based on the size of their account and their age every year after they reach age 70½. Failure to take a required withdrawal can result in a penalty of 50% of the amount not withdrawn. There's good news though-QCDs discussed above count as payouts for purposes of the required distribution rules. This means, you can donate all or part of your 2016 required distribution (up to the $100,000 per individual IRA owner limit on QCDs) and convert taxable required distributions into tax-free QCDs.

Also, if you turned age 70½ in 2016, you can delay your 2016 required distribution to 2017. However, waiting until 2017 will result in two distributions in 2017-the amount required for 2016 plus the amount required for 2017. While deferring income is normally a sound tax strategy, here it results in bunching income into 2017. Thus, think twice before delaying your 2016 distribution to 2017-bunching income into 2017 might throw you into a higher tax bracket or have a detrimental impact on your tax deductions.

Ideas for the Office

Maximize Contributions to 401(k) Plans. If you have a 401(k) plan at work, it's just about time to tell your company how much you want to set aside on a tax-free basis for next year. Contribute as much as you can stand, especially if your employer makes matching contributions. You give up "free money" when you fail to participate to the max for the match.

Adjust Your Federal Income Tax Withholding. If it looks like you are going to owe income taxes for 2016, consider bumping up the federal income taxes withheld from your paychecks now through the end of the year. When you file your return, you will have to pay any taxes due less the amount paid in and/or withheld. However, as long as your total tax payments (estimated payments plus withholdings) equal at least 90% of your 2016 liability or, if smaller, 100% of your 2015 liability (110% if your 2015 adjusted gross income exceeded $150,000; $75,000 for married individuals who filed separate returns), penalties will be minimized, if not eliminated.

Year-end Moves for Your Business

Take Advantage of Tax Breaks for Purchasing Equipment, Software, and Certain Real Property. If you have plans to buy a business computer, office furniture, equipment, vehicle, or other tangible business property or to make certain improvements to real property, you might consider doing so before year-end to capitalize on the following generous tax breaks:

- *Section 179 Deduction.* Under the Section 179 deduction privilege, an eligible business can claim significant first-year depreciation write-offs for the cost of new and used equipment, software additions, and qualified costs for restaurant buildings and improvements to interiors of retail and leased nonresidential buildings. For tax years beginning in 2016, the maximum Section 179 deduction is $500,000, but this amount is reduced to the extent qualified purchases exceed $2,010,000 for 2016. Also, limits apply to the amount that can be deducted for most vehicles.

Note: Watch out if your business is already expected to have a tax loss for the year (or be close) before considering any Section 179 deduction, as you cannot claim a Section 179 write-off that would create or increase an overall business tax loss. Please contact us if you think this might be an issue for your operation.

- *First-year Bonus Depreciation.* Above and beyond the Section 179 deduction, your business can claim first-year bonus depreciation equal to 50% of the cost of most new (not used) equipment and software placed in service by December 31 of this year. For a new passenger auto or light truck that's used for business and is subject to the luxury auto depreciation limitations, 50% bonus depreciation increases the maximum first-year depreciation deduction by $8,000 for vehicles placed in service this year.

Note: First-year bonus depreciation deductions can create or increase a Net Operating Loss (NOL) for your business's 2016 tax year. You can then carry back a 2016 NOL to 2014 and 2015 and collect a refund of taxes paid in those years. Please contact us for details on the interaction between asset additions and NOLs.

Gittelman & Company, P.C. Encourages Year-End Tax Planning (continued)

Evaluate Inventory for Damaged or Obsolete Items. Inventory is normally valued for tax purposes at cost or the lower of cost or market value. Regardless of which of these methods is used, the end-of-the-year inventory should be reviewed to detect obsolete or damaged items. The carrying cost of any such items may be written down to their probable selling price (net of selling expenses). [This rule does not apply to businesses that use the Last in, First out (LIFO) method because LIFO does not distinguish between goods that have been written down and those that have not.]

To claim a deduction for a write-down of obsolete inventory, you are not required to scrap the item. However, in a period ending not later than 30 days after the inventory date, the item must be actually offered for sale at the price to which the inventory is reduced.

Check Your Partnership and S Corporation Stock Basis. If you own an interest in a partnership or S corporation, your ability to deduct any losses it passes through is limited to your basis. Although any unused loss can be carried forward indefinitely, the time value of money diminishes the usefulness of these suspended deductions. Thus, if you expect the partnership or S corporation to generate a loss this year and you lack sufficient basis to claim a full deduction, you may want to make a capital contribution (or in the case of an S corporation, loan it additional funds) before year end.

Employ Your Child. If you are self-employed, don't miss the opportunity to employ your child before the end of the year. Doing so has tax benefits in that it shifts income (which is not subject to the Kiddie tax) from you to your child, who normally is in a lower tax bracket or may avoid tax entirely due to the standard deduction. There can also be payroll tax savings since wages paid by sole proprietors to their children age 17 and younger are exempt from both social security and unemployment taxes. Employing your children has the added benefit of providing them with earned income, which enables them to contribute to an IRA. Children with IRAs, particularly Roth IRAs, have a great start on retirement savings since the compounded growth of the funds can be significant.

Remember a couple of things when employing your child. First, the wages paid must be reasonable given the child's age and work skills. Second, if the child is in college, or is entering soon, having too much earned income can have a detrimental impact on the student's need-based financial aid eligibility.

Review Your Health Insurance Costs and Coverage

Make Sure You Have Adequate Health Insurance Coverage. If you and your family don't have adequate medical coverage (referred to as minimum essential coverage), you may be subject to a penalty. Medical insurance provided by your employer or through an individual plan purchased through a state insurance marketplace generally qualifies as adequate coverage. The penalty amount varies based on the number of uninsured members of your household and your household income. If you have three or more uninsured household members, the penalty may be $2,085 or more for 2016, depending on your household income. This amount will likely be slightly higher in 2017.

Take Advantage of Flexible Spending Accounts (FSAs). If your company has a healthcare and/or dependent care FSA, before year-end you must specify how much of your 2017 salary to convert into tax-free contributions to the plan. You can then take tax-free withdrawals next year to reimburse yourself for out-of-pocket medical and dental expenses and qualifying dependent care costs. Watch out, though, FSAs are "use-it-or-lose-it" accounts-you don't want to set aside more than what you'll likely have in qualifying expenses for the year.

If you currently have a healthcare FSA, make sure you drain it by incurring eligible expenses before the deadline for this year. Otherwise, you'll lose the remaining balance. It's not that hard to drum some things up: new glasses or contacts, dental work you've been putting off, or prescriptions that can be filled early.

Consider a Health Savings Account (HSA). If you are enrolled in a high-deductible health plan and don't have any other coverage, you may be eligible to make pre-tax or tax deductible contributions to an HSA of up to $6,750 for a family coverage or $3,350 for individual coverage-plus an extra $1,000 if you will be 55 or older by the end of 2016. Distributions from the HSA will be tax free as long as the funds are used to pay unreimbursed qualified medical expenses. Furthermore, there's no time limit on when you can use your contributions to cover expenses. Unlike a healthcare FSA, amounts remaining in the HSA at the end of the year can be carried over indefinitely.

Don't Overlook Estate Planning

For 2016, the unified federal gift and estate tax exemption is a generous $5.45 million, and the federal estate tax rate is a historically (if not financially) reasonable 40%. Even if you already have an estate plan, it may need updating to reflect the current estate and gift tax rules. Also, you may need to make some changes that have nothing to do with taxes. Taxpayers living in New Jersey received some good news in that if we can hold off dying until 2018, we won't have any state estate taxes to pay (nope, we didn't say anything about inheritance taxes).

Conclusion

Through careful planning, it's possible your 2016 tax liability can still be significantly reduced, but don't delay. The longer you wait, the less likely it is that you'll be able to achieve a meaningful reduction. The ideas discussed in this letter are a good way to get you started with year-end planning, but they're no substitute for personalized professional assistance.

New N.J. Law Eliminates the State Tax by 2018. Now What ?

Governor Christie and legislative leaders signed a new law to address the state's bankrupt transportation fund. The new law imposes a gas tax increase of 23 cents per gallon (to fund transportation projects), and allows for tax cuts in other areas, including the estate tax. More specifically, the law increases the state estate tax exemption (the amount which passes free of estate tax) from $675,000 to $2,000,000 in 2017, and eliminates the tax entirely in 2018. So, decedents dying in 2017 pay no state estate tax if their assets are under $2,000,000; and decedents dying in 2018 and beyond pay no state estate tax at all.

"What Now?"

- Review your current estate plan (Wills, Revocable Trusts, etc.) to ensure that it still is consistent with your wishes, both at a time when the exemption is $2,000,000, and when there is no state estate tax at all. The complete elimination of the estate tax may change the allocation of funds among one or more trusts created under your Will, which could affect the amount of assets various beneficiaries of your estate will receive.

"Do I Still Need to do Estate and Tax Planning?"

- *YES!* The need for general planning continues, including a Will or in some cases, a Revocable Trust. Without your specific direction under a Will (or Revocable Trust), New Jersey will use its default rules to distribute your assets among your closest relatives. Therefore, it is very important to make your wishes known, and legally binding, in a Will (or Revocable Trust), especially if you intend for minor children's inheritance to be held in trust for them, or if you want to specify guidelines for the distribution of assets to your spouse and/or children following your death.

- The new law does not affect the Federal estate tax exemption. Currently, the Federal exemption is $5,450,000 (less lifetime taxable gifts). If you anticipate that your estate will exceed this threshold, there are a variety of estate planning techniques to take advantage of, whether now by making lifetime gifts (either outright or in trust), or at death under your Will.

- The new law does not affect New Jersey's inheritance tax. If you intend to benefit people other than a spouse, parents, grandparents or descendants (children, grandchildren, etc.), say by making a bequest to a favorite niece or nephew, then your estate still will be subject to an inheritance tax. Understanding the amount of the potential tax and identifying which funds will be used to pay the tax are still an important aspect of estate planning.

- While estate taxes may be less of a concern to some people now, the cost of long term care coverage still looms large for many of us. Thus, it is important for you to know the rules regarding the preservation of assets so that you can put long term care planning in place to shelter houses, brokerage accounts and other assets.

Of course, we welcome the opportunity to discuss these issues in more detail with you. Please do not hesitate to contact us if you wish to review or revise your existing plan in light of the new law.

New Jersey Enacts Tax Breaks on Retirement Income

Also included in the new law is a tax break for those receiving retirement income. Over four years beginning on January 1, 2017, the current exclusions from income tax on retirement income will increase as shown below:

	Married, Filing Jointly	Single	Married, Filing Separately
2016	$20,000	$15,000	$10,000
2017	$40,000	$30,000	$20,000
2018	$60,000	$50,000	$30,000
2019	$80,000	$65,000	$40,000
2020	$100,000	$75,000	$50,000

New Tax Return Due Dates for 2016

As a result of a tax bill enacted in 2015, some of the 2016 tax return due dates have changed. Please make a note. Note there have been no changes to individual tax filing due dates.

Form	New Due Date *	Due Date with Extension
Partnerships—Form 1065	March 15, 2017	September 15, 2017
S Corporations—Form 1120S	March 15, 2017	September 15, 2017
C Corporations—Form 1120	April 15, 2017	September 15, 2017
Trusts—Form 1041	April 15, 2017	September 30, 2017
Fin Cen Report 114 (FBAR)	April 15, 2017	October 15, 2017
Employer W-2 and 1099 Forms	January 31, 2017	None
Exempt Organization Returns—Form 990/EZ	May 15, 2017	November 15, 2017

* Assumes calendar tax year ended December 31, 2016

2016 year-end planning checklist

High income earners

Review your deductions from a timing perspective
Analyze mutual fund capital gain distribution estimates
Monitor AMT liability
Consider a Roth IRA conversion
Review liquidity available for estimated tax payments, if required

Investors

Net short- and long-term gains and losses
Time loss recognition, remaining aware of the wash sale rule
Analyze concentrated stock positions to determine if diversification or hedging is desired
Review portfolio for current risk level and circumstances
Watch for any corporate inversions that may impact you

Wealth transferors

Consider using $5.45 million gift tax exemption
Make annual exclusion ($14,000) gifts, potentially to 529 plans
Consider GRATS, family loans, trusts, and other opportune estate planning strategies
Explore IRAs for the next generation, where applicable
Consider whether year-end distributions from non-grantor trusts for tax planning purposes would be appropriate

Philanthropists

Review optimal timing of charitable gifts, and appropriate action to ensure desired deduction year
Select optimal assets to give to charity
Consider charitable vehicles such as donor advised funds or private foundations
Consider tax efficient strategies for private foundation management
Monitor the situation with regard to IRA distributions donated to charity
Consider the impact of AMT on charitable donations

Business owners, employees and retirees

Maximize contributions to retirement plans
Withdraw RMDs, monitoring whether charitable distributions from IRAs become possible
Consider life insurance to protect against estate taxes due upon IRAs at death

Everyone

Review various types of insurance
Go over estate planning documents, including powers of attorney and living wills
Confirm beneficiary designations and asset titling
Communicate location of important documents to appropriate individuals

Be in touch with Gittelman & Company regarding estate tax planning

2016 Individual Income Tax Rate Schedules

If Taxable Income Is:

Over	But Not More Than	The Tax Is	Of The Amount Over
Married Filing Jointly:			
$0	$18,550	$0 + 10%	$0
18,550	75,300	1,855.00 + 15%	18,550
75,300	151,900	10,367.50+25%	75,300
151,900	231,450	29,517.50 + 28%	151,900
231,450	413,350	51,791.50 + 33%	231,450
413,350	466,950	111,818.50 + 35%	413,350
466,950		130,578.50 + 39.6%	466,950
Married Filing Separately:			
$0	$9,275	$0 + 10%	$0
9,275	37,650	927.50 + 15%	9,275
37,650	75,950	5,183.75 + 25%	37,650
75,950	115,725	14,758.75 + 28%	75,950
115,725	206,675	25,895.75 + 33%	115,725
206,675	233,475	55,909.25 + 35%	206,675
233,475		65,289.25 + 39.6%	233,475
Head of Household:			
$0	$13,250	$0 + 10%	$0
13,250	50,400	1,325.00 + 15%	13,250
50,400	130,150	6,897.50 + 25%	50,400
130,150	210,800	26,835.00 + 28%	130,150
210,800	413,350	49,417.00 + 33%	210,800
413,350	441,000	116,258.50 + 35%	413,350
441,000		125,936.00 + 39.6%	441,000
Single:			
$0	$9,275	$0 + 10%	$0
9,275	37,650	927.50 + 15%	9,275
37,650	91,150	5,183.75 + 25%	37,650
91,150	190,150	18,558.75 + 28%	91,150
190,150	413,350	46,278.75 + 33%	190,150
413,350	415,050	119,934.75 + 35%	413,350
415,050		120,529.75 + 39.6%	415,050
Estates and Trusts:			
$0	$2,550	$0 + 15%	$0
2,550	5,950	382,50 + 25%	2,550
5,950	9,050	1,232.50 + 28%	5,950
9,050	12,400	2,100.50 + 33%	9,050
12,400		3,206.00 + 39.6%	12,400

Update on E-Filing

We have successfully completed our eleventh full-year of transition to electronic filing (e-filing) of business and personal tax returns. The program has gone extremely well and all of our clients realize the benefits of e-filing.

"Please review these carefully as it will help alleviate problems during tax season and to make your tax preparation smoother."

Here are some of the problems we are reporting with e-filing. Please review these carefully as it will help alleviate problems during tax season and to make your tax preparation smoother:

1. ***The number one problem is that we cannot e-file your returns until you sign and return e-file authorization declarations that are sent with your returns. The declarations are marked with red signature labels and have a postage paid envelope for mailing back to us. You can also fax or e-mail them to us. We do not need the originals.***

2. Remember that it is **our responsibility** to e-file your returns upon receipt of the authorization and it is **your responsibility** to pay and mail all tax liabilities owed by the required due dates and with the tax payment vouchers provided.

3. Your name and your spouse's name on the tax return must exactly match the name on your social security cards. The same applies for your dependents. Many e-filings are rejected because the names do not match. This is especially the case with married spouses who use their married name but are still registered with the Social Security Administration under their maiden name.

4. In some circumstances (although it is rare) certain returns cannot be e-filed due to complexities with the return. If the return cannot be e-filed, the filing instructions will clearly indicate this.

5. Returns filed after the required due dates including valid extensions may not be e-filed depending on circumstances.

Please take a few minutes to review the above. It will help your returns to be processed problem free.

GITTELMAN & COMPANY, P.C. ENCOURAGES E-ORGANIZER FOR 2016

Gittelman & Company, P.C. Encourages E-Organizer For 2016

For 2016, we are pleased to continue to offer an exciting product to our clients which we introduced in 2002. E-Organizer is a new way of delivering and retrieving tax organizer information to our clients via e-mail. Prior to introducing this product, clients could only download organizers and send them back to us for return preparation. During 2015, more of our clients used E-Organizer and really felt it made their tax preparation easier.

E-Organizer saves considerable time, tax preparation fees, paper, postage and handling costs associated with delivering your 2016 tax data. The great benefit is our ability to retrieve your 2015 tax data and bring it into your 2016 tax files automatically. Keep in mind that our professionals will have the opportunity to review and edit all data before accepting it into the actual 2016 tax files.

Here's How E-Organizer Works

Clients send us an e-mail request (see details on page 18) for an E-Organizer. The E-Organizer uses your e-mail address to send back an e-mail with the E-Organizer application attached. You simply double click the attachments, download the E-Organizer application and enter a password to begin running your E-Organizer. **(Note that E-Organizer files are not compatible with MAC users).**

"E-Organizer is a way of delivering and retrieving tax organizer information to our clients via e-mail. "

The E-Organizer layout is similar to the paper organizer that you may already be familiar with from prior years, so the learning curves should be minimal. New users will also find it easy to use. You then enter your 2016 tax data directly onto the E-Organizer screens. As always, your 2015 prior years data is also available for reference and comparison.

Once you have completed entering your 2016 tax data, you then follow the simple instructions for closing the application and returning the data back to us via e-mail.

Next, the completed E-Organizer is delivered to our e-mail inbox. Your 2016 tax data will then be imported into our 2016 tax data files. Your tax entries are highlighted in red for easy review and editing by our tax professionals. After required modifications are made, the data is accepted into your 2016 tax return files.

The E-Organizer is a great way to eliminate paper and reduces the time you and Gittelman & Company spend on preparing your returns. After your E-Organizer data is received, clients can schedule a telephone conference or a follow up meeting to discuss the returns and to ask relevant questions. Furthermore, you can accompany your E-Organizer with relevant notes and questions as well.

During 2015, about 40% of our clients used E-Organizer and found it to be efficient and easy to use.

As in prior years, clients using E-Organizer or our paper organizer who waive their tax return appointments will receive special fee discounts. See our 2016 Tax Preparation Section for more details.

More About the 2016 Tax Preparation Season

I continue to urge clients that tax preparation appointments are not a mandatory prerequisite to the completion of your returns. Most of our clients have taken our advice and continue to save substantial time and money by foregoing the appointment process, completing a tax data organizer and sending it to us by mail with copies of all back-up documents. You can now take advantage of our E-Organizer for further savings of time and money. Alternatively, clients visit with us throughout the year to review their tax plans and to implement tax minimization strategies.

You can reduce your tax preparation fee by approximately as much as 25% by foregoing the appointment process and by using our E-Organizer. After reviewing your tax data organizer or E-Organizer files, a telephone conference is usually arranged to discuss the return and to answer any questions you have. Although we encourage personal interaction with all our clients, we urge you to do this during the year as part of the planning process rather than during our hectic season when time is at a premium. Furthermore, time spent during the year can mean greater tax savings because it will allow us to plan prospectively.

"Clients who waived the appointment process and used our E-Organizer during 2015, saved an average of 25% on their 2015 tax preparation fee."

Appointment Dates

CLIFTON, NEW JERSEY

- TUESDAY—5 pm to 8 pm
- THURSDAY—5 pm to 8 pm
- SATURDAY—9 am to 2 pm

NEW YORK CITY, NEW YORK

- WEDNESDAY—2 pm to 7 pm

For New York City clients, please note that our New York office address remains at 19 West 44th Street between 5th and 6th Avenue), 6th floor. We share space with Kaplow Communications.

Tax Appointment Schedule

As in previous years, we must add a computer charge (minimum of $35) to each return we prepare. This charge is strictly to recover part of the computer cost increases we have experienced. Please note **the minimum charge per return will be $400** (without regard to the computer charge). There will also be a $40 rerun charge for returns that were processed as a result of omissions or errors on your part. There will no longer be an e-file charge as this will now be included in the tax return fee.

The appointment schedule for preparation is listed above. Appointments will start on **February 6, 2017** with the last appointments on **April 1, 2017.** We will not accept appointments after this date and your return will be put on extension. Although appointments are welcome, they are not required. You can save substantial time and money by mailing (or by e-mailing through E-Organizer) your tax information to us for preparation. Any follow up questions can be handled by telephone or through our E-mail service. We urge you to make your appointment as early as possible in order to ensure timely return processing.

Visit Our Website

- Construction of our new web site is always in progress. The site features a photographic tour of our office facility, resumes and interesting background on our staff, information on services offered to our clients, hotlinks to other important websites and, in the future, testimonials from our many satisfied clients.
- The website will also offer direct access to our e-mail system, all client newsletters, updated payroll tax information and the ability to download and prepare our 2016 tax data organizer on screen. Information is also available concerning our E-Organizer product and how it works
- Future construction will include new hot links and updates on new tax law developments. The web site can be found at ***www.gittco.com***.

"The web site can be found at ***www.gittco.com***."

Firm E-Mail Directory and Voice Mail Extensions

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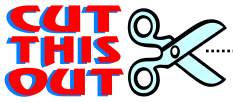
Michele Babij	mbabij@gittco.com	100
Lourdes Maldonado	lmaldonado@gittco.com	102
Sean Faust	sfaust@gittco.com	117

Tax Organizer Request Form

A tax organizer is available, at your request, to help you gather data needed to prepare your returns. The organizer also gives you the data from your 2016 return for comparison. If you are interested in receiving one, please detach the request form below and mail it to our Clifton, New Jersey office no later than January 31, 2017. You can also fax your request to (973) 778-0140 or send an e-mail to dswiatek@gittco.com. The organizer will be mailed or emailed shortly thereafter. You can also download the organizer from our website at http://www.gittco.com.

E– Organizer Request

Clients who wish to utilize our E-Organizer (see page 14) can send an e-mail to dswiatek@gittco.com before January 31, 2017. The E-Organizer will be e-mailed back to the senders e-mail address shortly thereafter.



Request Form

TAX ORGANIZER

Please Send Me a 2016 Tax Organizer

Comments:

Delivery Preference: ☐ Mail ☐ Email

Name

Address

Email Address

Gittelman & Company, P.C.

300 Colfax Avenue

PO Box 2369

Clifton, New Jersey 07015-2369

Gittelman & Company, P.C.

Certified Public Accountants

Management Consultants
"Tomorrow's knowledge today"

300 Colfax Avenue

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WE'RE ON THE WEB!

WWW.GITTCO.COM

*"The hardest thing in the world to understand is the income tax."–**Albert Einstein***

*"You must pay taxes. But there's no law that says you gotta leave a tip."–**Morgan Stanley advertisement***

*"All taxes discourage something. Why not discourage bad things like pollution rather than good things like working or investment?"–**Lawrence Summers***

*"We don't have a trillion-dollar debt because we haven't taxed enough; we have a trillion-dollar debt because we spend too much." - **Ronald Reagan***