DEO, LAMANNA, DEO & CO., PC
Certified Public Accountants
www.dldcpa.com

Patrick J. Deo, CPA, Cr.FA
patd@dldcpa.com
Anthony LaManna, CPA
tonyl@dldcpa.com
Michael J. Deo, CPA
miked@dldcpa.com

# *DLD NEWS AND VIEWS*

September 2017

Well – summer vacations are behind us and looking forward to the fall season. The change in season brings to mind many things – some pleasant others not so pleasant – for example, "taxes." Fortunately, or unfortunately, the long awaited "tax simplification" and "tax reform" is stuck in Congress like the "flex tape" advertised on television. Trump is "stumping" across the country pushing to achieve his election campaign promise. Congress meantime is wrestling with tax reform – trying to achieve a balance between tax cuts and revenue, appease the special interest groups (which are many), assure some degree of "fairness" to all level of taxpayers, (low income, middle class and wealthy), and draft legal language to achieve the changes that a majority of congress will say "yes" to.

A huge question – If and when tax reform is passed, – what will be the effective date?

Notwithstanding – there are some tax planning things to think about based on current law.

## *Health Savings Accounts (HSA)*

With the cost of health insurance premiums "skyrocketing," policies have been written with high deductibles to lower the premium cost. For 2017, a high deductible is $1,300 for single coverage and $2,600 for a family plan. In addition, the policy must provide a maximum of out of pocket expenses of $6,550 for self only coverage and $13,100 for family coverage. If your medical insurance policy is "HSA friendly" (need to check with your employer or insurance carrier) – you can make a tax-deductible contribution to your HSA of $3,400 for a self only plan or $6,750 for a family plan. If age 55 or over, you can contribute an additional $1,000. Unfortunately, if 65 or older and enrolled in Medicare you can *not* contribute to an HSA. A "great thing" about an HSA – it is tax deductible going in and tax free coming out to pay qualified medical expenses. Also, if you do not use what is contributed to the HSA, it is accumulated with tax free income for future use. Think about how the accumulation in the HSA can be of help in retirement years to pay possible additional medical expenses.

## *Investing*

A frequent question – what should I invest in? The question really needs to be answered jointly by the financial advisor and the tax advisor. Any substantial investment plan should include discussion with your tax advisor "before the fact" not "after the fact." A seemingly simple issue – should the investment strategy be currently "taxable," "not taxable" or "tax deferred." There is no "cookie cutter" answer. The planning needs to look at impacts of current tax laws, federal and state, with possibly doing tax projections. A big unknown is what the future will hold. Notwithstanding, it needs to be reasonably factored in based on what we know, goals, financial projections, health issues, etc.

If looking for current tax benefits, strong consideration should be given to retirement programs. The downside is future tax impacts. For 2017, the maximum contributions to an IRA is $5,500 ($6,500 if 50 or older), the maximum 401(k) contributions is $18,000 ($24,000 if 50 or older). Keep in mind that even with IRAs and some 401(k) plans, you can set them up with no current tax deduction but tax-free distributions at retirement.

Looking for tax deferrals could also involve annuities and/or certain life insurance products. For tax-free income – municipal bonds are still a valuable alternative. With this type of program, tax brackets and state of residence are important factors.

Taxable investments also need “planning.” Certain investments put a cap of 15%/20% tax on the income from qualified dividends and long-term capital gains. In some cases, there is “zero” federal tax on qualified dividends and long-term capital gains, if in the 15% or lower tax bracket. So, while certain taxable investments may provide a nice “yield,” after tax “yield” needs to be considered as well.

### *Converting Traditional IRA to ROTH IRA*

If you are considering whether to convert a traditional IRA to a Roth IRA you may be wondering if you should take the plunge now and pay tax on the conversion this year, or wait till next year when tax rates may be lower under the reform plan Congress is reportedly considering. Fortunately, those sold on Roth IRAs, under current law, can convert this year without worry. If rates are indeed lower next year under tax reform, you can use the recharacterize-and-reconvert strategy to shift the conversion’s tax consequences from 2017 to 2018, subject to following the rules for doing so.

## Think about it…

“.....Whatever happened yesterday can’t be changed, but will impact today and tomorrow.....”