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Dear Clients and Friends,

With a new administration taking shape in our nation's capital after the elections, you can expect that significant tax reforms will be debated, and perhaps enacted, in the near future. But the greatest impact on year-end tax planning in 2016 will likely derive from what happened late last year, not what will happen next year.

In the waning days of 2015, Congress passed the Protecting Americans from Tax Hikes (PATH) Act, which was promptly signed into law. This new federal legislation reinstated dozens of favorable tax provisions that had expired, many of them retroactive to the beginning of 2015. In some cases, the new law made often-extended tax breaks permanent, with certain modifications. The changes included in the PATH Act provide both individual and business taxpayers with a clearer picture about the optimal tax moves to make before the end of this year.

Furthermore, other developments occurring the last few years—such as a series of new cases, rulings and IRS regulations—could affect your year-end tax decisions. Finally, you might be able to benefit from various other tax-saving opportunities previously written into the Internal Revenue Code.

Keeping all that in mind, we have prepared the following **2016 Year-End Tax-Planning Letter**.

As 2016 comes to a close, income and deductions for the year become apparent. The last month provides an opportunity to review your individual and business situations and apply the strategies listed below to minimize income tax. Generally, income tax planning involves deferring income to a later year and accelerating deductible expenditures into the current year. Listed below are a number of specific strategies that can assist in lowering your income tax liability for 2016.

INDIVIDUAL TAX PLANNING

Alternative Minimum Tax

Despite some recent favorable changes, the alternative minimum tax (AMT) continues to impact millions of unsuspecting taxpayers each year. The calculation for determining AMT liability involves inclusion of technical adjustments and tax preference items, such as add-backs for certain deductions, and subtraction of an exemption amount. After comparing the AMT result to your regular tax, you effectively pay the higher of the two.

YEAR-END MOVE: Have your personal situation assessed. Depending on the results, you may shift certain tax preference items or deductions to 2017 to reduce AMT liability for 2016.

By using one specific tax-shifting strategy you can potentially reduce your AMT and also help provide a better education for children in Alabama. An Alabama tax credit is available to individual taxpayers that contribute to a scholarship-granting organization. Taxpayers can make this donation in lieu of an estimated tax payment. The amount given counts as a charitable contribution, rather than a state tax deduction, is on your Federal tax return. State taxes are an AMT preference item so this shift can reduce your federal AMT. On the Alabama tax return, the total contributions made to a scholarship-granting organization during the taxable year for which the credit is claimed will be used as a tax credit. For individuals, the credit is limited to 50% of your tax liability or $50,000. Any unused credits may be carried forward up to three years. Please contact your accountant for assistance with your specific situation.

There are just two AMT rates: 26% on AMT income up to $186,300 in 2016 and 28% on AMT income above that threshold. Note that the top AMT rate is lower than the top regular income tax rate of 39.6%.

Tip: Please contact your JMF accountant for assistance with projecting your possible AMT and deciding on the proper plan for reducing your overall tax liability. The AMT does not affect all taxpayers.

Charitable Donations

Generally, you can deduct the full amount you donate to qualified charitable organizations, as long as you meet the strict substantiation requirements spelled out in the tax law. However, be aware that other limits may apply to charitable deductions.

YEAR-END MOVE: Absent extenuating circumstances, increase your charitable gifts before 2017. However, be sure to meet the strict record-keeping requirements in the law. For instance, a written acknowledgment from the charity is required for monetary gifts of $250 or more.

Furthermore, if you donate property held for longer than one year, you can generally deduct an amount equal to the property's fair market value (FMV). Otherwise, the deduction is limited to your "basis" (generally, the cost), in the property. Note that additional rules may apply to gifts of property. For instance, the annual deduction for gifts of property generally cannot exceed 30% of your adjusted gross income (AGI).

If you plan to donate securities to a charity, it is often advantageous to give assets that have appreciated in value over time. As a result, you can deduct the FMV of the securities while the appreciation remains untaxed forever.

Tip: If you donate by credit card late in December, you can still write off the donation on your 2016 return—even if you do not actually pay the credit card charge until 2017.

Medical and Dental Expenses

For 2016, you may deduct only unreimbursed medical and dental expenses exceeding 10% of your AGI. For taxpayers who are age 65 or older, the threshold is 7.5% of AGI.

Usually, you have no control over when medical or dental expenses occur. At other times, however, you may be able to schedule elective expenses, such as arranging physical examinations or dental cleanings, to your benefit.

YEAR-END MOVE: Move non-emergency expenses into the optimal tax year for claiming deductions. For instance, if you are near or have already surpassed the AGI threshold this year, you could accelerate elective expenses into 2016. Otherwise, you might as well delay expenses to 2017, when at least you will have a chance at a deduction.

For this purpose, count unreimbursed medical and dental expenses paid for your immediate family, as well as other tax dependents such as an elderly parent or in-law. Paying these expenses may help you qualify for a deduction or boost an existing write-off.

Tip: Under current law, this is the last year in which taxpayers who are age 65 or older will benefit from the lower 7.5%-of-AGI floor. It is set to increase to 10%-of-AGI in 2017.

Education Expenses

The tax law provides certain tax benefits to parents of children in college, but within limits. Thanks to the PATH Act, you can choose between a tax credit and a deduction in 2016.

YEAR-END MOVE: When appropriate, try to pay qualified expenses for next semester in the year that will provide the most benefit. This could be 2016 or 2017. If your income is too high to claim the education benefits this year but will be lower next year, you may want to pay for the tuition in 2017. If the student doesn’t have enough taxable income to benefit from these credits this year but will graduate and begin work in 2017, you may want to pay the tuition in 2017 to be able to benefit from the tax break. Typically, you may benefit from either the American Opportunity Tax Credit (AOTC) or the Lifetime Learning Credit (LLC). The enhanced maximum AOTC of $2,500, permanently preserved by the PATH Act, can be claimed for qualified expenses of each student. Conversely, the maximum LLC is $2,000 and is available only on a per-family basis. Thus, the AOTC is usually preferable to parents.

Both credits are subject to phase-outs based on modified adjusted gross income (MAGI). Similarly, the tuition deduction is either $4,000 or $2,000, based on your MAGI. The deduction is completely phased out at a MAGI of $80,000 for single filers and $160,000 for joint filers.

Miscellaneous

*You may deduct annual state sales taxes (based on an IRS table or actual receipts) in lieu of deducting state and local income taxes. This alternative deduction, which had expired and been revived several times in the past, was made permanent by the PATH Act.

*In some cases, you may consolidate outstanding personal debts into home equity debt. Interest on personal debts is not tax deductible, but you can generally deduct mortgage interest paid on the first $100,000 of home equity debt in most states, no matter how the proceeds are used.

*Prepay state and local taxes when it suits your needs. For instance, if property taxes are due on January 1, 2017, a payment in December may increase your 2016 deduction.

*Miscellaneous expenses, including unreimbursed employee business expenses, are deductible only in excess of 2%-of-AGI. As with medical and dental expenses, you might arrange to pay qualified expenses (e.g., tax assistance fees) before 2017 to boost your deduction for 2016.

*The PATH Act restores the 10% residential energy credit, capped at $500, for energy-saving improvements, but only for those made through 2016.

*You may be liable for an estimated tax penalty if you fail to pay the required tax during the year. But you can avoid the penalty by paying enough to satisfy a "safe harbor" of 90% of current tax liability or 100% of the previous year's tax liability (110% if your AGI was above $150,000).

BUSINESS TAX PLANNING

New Due Dates for Corporate and Partnership Returns

Corporate and partnership returns have new, more logical due dates in 2017. Partnership and S Corporation returns are due on March 15th with an extended due date of September 15th. Corporate returns are due on April 15th with an extended due date of October 15th.

Section 179 Deductions

Under Section 179 of the tax code, a business may currently deduct, or "expense," the cost of qualified new or used property placed in service during the year, up to an annual limit. The maximum deduction is phased out on a dollar-for-dollar basis above an annual threshold.

The maximum Section 179 deduction was scheduled to be slashed from $500,000 to $25,000 after 2014, but the PATH Act permanently preserves the generous higher allowance, retroactive to 2015, with future inflation indexing.

YEAR-END MOVE: Maximize the tax benefits for buying qualified property. As long as the property is placed in service this year, the cost is deductible on your 2016 tax return.

Note that the Section 179 deduction cannot exceed the taxable income from all your business activities. This could limit your deduction for 2016.

Tip: Depreciation deductions may still be available for costs that cannot be expensed under Section 179. For these purposes, the Section 179 deduction is claimed first.

Depreciation Deductions

Generally, a business may claim depreciation deductions for qualified property over a cost recovery period, based on the Modified Accelerated Cost Recovery System (MACRS). In addition, the PATH Act preserves the 50% “bonus” depreciation for qualified property placed in service from 2015 through 2017. This bonus depreciation deduction is now scheduled to decrease to 40% in 2018 and 30% in 2019 before expiring.

YEAR-END MOVE: Your business should cash in on this tax break while it can. Factor in all the tax ramifications for your business before purchasing property at the end of the year.

Note that bonus depreciation may be claimed in conjunction with Section 179 (see above). However, unlike deductions claimed under Section 179, bonus depreciation is not available for used property.

Tip: MACRS deductions are generally reduced if business property (other than real estate) placed in service during the last quarter of the year—the period spanning October 1 through December 31—exceeds 40% of the cost of assets placed in service during the entire year.

Business Start-up Costs

The tax law allows a small-business owner to claim a first-year deduction of up to $5,000 for qualified start-up costs. Any remaining expenses that qualify must be amortized over 180 months. However, the $5,000 write-off is phased out on a dollar-for-dollar basis for start-up costs exceeding $50,000.

YEAR-END MOVE: Make sure that you are officially “open for business” before the end of the year. Otherwise, you will not be entitled to the current $5,000 deduction in 2016. The actual event that triggers an opening will vary according to the type of business you are operating and your particular circumstances.

Generally, start-up costs are expenses that would be deductible as business expenses. This includes investigatory expenses such as the following items:

- an analysis or survey of potential markets, products, labor supply, transportation facilities, etc.
- advertisements for the opening of the business
- salaries and wages for employees who are being trained and their instructors
- travel and other necessary costs for securing prospective distributors, suppliers, or customers or clients
- salaries and fees for executives and consultants or for similar professional services

Tip: Previously, you had to make a proactive election to currently deduct start-up costs. But this tax treatment is now automatic. Ensure that your 2016 tax return is filed in a timely fashion to capitalize on this tax break.

Miscellaneous

*Purchase routine business supplies before the end of the year. As a general rule, your company can deduct the costs in 2016, even if the supplies are not used until 2017.

*Losses claimed by S corporation shareholders are limited to the basis in the stock plus outstanding debt. Thus, you might decide to make a capital contribution or loan money to the corporation before year-end to increase your basis for loss-deduction purposes. Talk to your JMF accountant if you expect a current year loss and the business has debt.

*A company may deduct 100% of business travel costs and 50% of entertainment and meal expenses. Note that a company can deduct 100% of the cost of a holiday party as long as the entire workforce is invited.

*If you buy a heavy-duty SUV or van for business, you might claim a first-year deduction of up to $25,000. The usual “luxury car” limits do not apply to certain heavy-duty vehicles.

*As a general rule, repairs are currently deductible, while capital improvements must be depreciated over time. Based on guidelines established by recent regulations, plan accordingly. For instance, take care of minor repairs before next year to increase your deduction for 2016.

*An accrual-basis company operating on a calendar tax year may deduct bonuses in 2016 if it pays them within two and a half months of the close of the tax year (but not bonuses for certain business owners). Conversely, employees are not taxed on the bonuses until 2017, when they are received.

*Comply with the employer mandate for health insurance under the ACA. The shared responsibility requirement was extended in 2016 to businesses with between 50 and 99 full-time employees or FTEs. Also, be aware that penalties for failures have increased. Note that the IRS has extended the due date for furnishing Forms 1095-B and 1095-C to individuals to March 2, 2017.

FINANCIAL TAX PLANNING

Capital Gains and Losses

The tax law requires investors to use net capital gains and losses from securities sales to offset each other. If you have an excess loss for the year, it may offset up to $3,000 of ordinary income before being carried over to the next year. A net long-term capital gain is taxed at a maximum rate of 15% or 20% if you are in the top ordinary income tax bracket of 39.6%. Short-term capital gains are taxed at ordinary income rates.

YEAR-END MOVE: Examine your investment portfolio. Depending on the results, you might “harvest” capital losses to offset gains realized earlier in the year or harvest capital gains that will be partially or wholly absorbed by prior losses.

Be aware of even greater preferential tax treatment for long-term capital gains. Notably, a 0% rate applies to taxpayers in the lowest two regular income tax brackets of 10% and 15%. However, the 0% rate does not apply or benefit dependent children subject to the kiddie tax. And, even if capital gains push you into a higher tax bracket, you still benefit from the 0% rate on the portion of the gains up to the top of the income threshold for the 15% tax bracket.

Tip: Under the "kiddie tax," unearned income above $2,100 realized by a child under age 19, or a dependent full-time student under age 24, is generally taxed at the parents' top tax rate. Keep an eye on this threshold.

Net Investment Income Tax

An additional 3.8% tax applies to the lesser of your net investment income (NII) or the amount by which your modified adjusted gross income (MAGI) exceeds $200,000 for single filers and $250,000 for joint filers. (These amounts are not indexed for inflation.) The definition of NII includes interest, dividends, capital gains and income from passive activities, but not Social Security benefits, tax-exempt interest, and distributions from qualified retirement plans and IRAs.

YEAR-END MOVE: Reduce your exposure to the NII tax in 2016. For instance, depending on your situation, you might use one or more of the following techniques:

*Add municipal bonds ("munis") to your portfolio. Interest income from munis does not count as NII, nor is it included in the calculation of MAGI.

*Establish a charitable remainder trust (CRT). With a CRT, you qualify for a current tax deduction while the income is sheltered from the NII tax.

*Become active in a passive activity. For example, if you own a business and meet the tax law requirements for material participation, the business income may be exempted from the NII tax.

*Consider an investment in a tax-deferred annuity that "leapfrogs" your highest-earning years when the NII tax is likely to apply.

Tip: Net investment income tax does not apply to children's investments that are subject to the Kiddie Tax. It only applies if the child's income exceeds the limits shown above. Of course, planning decisions regarding the net investment income tax should not be made in a vacuum. Coordinate tax-saving strategies with other aspects of your financial and investment plans.

Required Minimum Distributions

As a general rule, you must receive required minimum distributions (RMDs) from qualified retirement plans and IRAs after attaining age 70½. The amount of the distribution is based on IRS-approved life expectancy tables and your account balance at the end of last year.

YEAR-END MOVE: Make sure you receive the necessary RMDs before the end of 2016. Otherwise, you must pay a stiff tax penalty equal to 50% of the required amount (less any amount you have received), in addition to the regular tax liability.

However, be aware of this special exception: If you are still working and not a 5%-or-more owner of a business you are employed by, you can postpone RMDs from the employer's qualified plan until you actually retire. This rule does not apply to RMDs from IRAs or plans of other employers.

Tip: RMDs are not treated as NII for purposes of the 3.8% tax. Nevertheless, an RMD may still increase your MAGI used in this tax calculation.

Roth IRA Conversions

Although contributions to traditional IRAs may be tax deductible, deductions are phased out for active participants in employer-sponsored retirement plans. Future distributions are taxed at ordinary income rates reaching up to 39.6%.

Conversely, Roth IRA contributions are never tax deductible, but qualified distributions from a Roth IRA in existence at least five years are 100% tax-free. Taxation of other distributions is based on special "ordering rules."

YEAR-END MOVE: This may be the year it finally makes sense for you to convert some or all of the funds in your traditional IRAs into a Roth. The transfer is currently taxable, but can provide future tax-free benefits. A conversion is especially advantageous if you expect to be in a higher tax bracket in your retirement years than you are now.

Nevertheless, a Roth IRA conversion increases your MAGI for purposes of the NII tax. To reduce your overall tax liability, you might arrange a series of Roth IRA conversions over several years instead of converting all the funds this year. Manage your tax brackets accordingly.

Tip: The conversion tax is based on the value of the assets on the date they are transferred to the Roth IRA. If the value declines substantially after conversion, you still have until the tax return due date for 2016, plus extensions, to re-characterize a Roth back into a traditional IRA.

ESTATE AND GIFT TAXES

Estate-tax planning has gone down a long and winding path. Legislation enacted in 2001 gradually increased the estate-tax exemption, while severing it from the lifetime gift exemption, and reduced the top estate-tax rate. Then the estate tax was repealed entirely, but only for 2010, after which it was reinstated. Currently, the tax law provides a reunified estate- and gift-tax exemption of $5.45 million in 2016 and a top 40% estate-tax rate.

YEAR-END MOVE: Update your estate plan to reflect existing law. For instance, wills and trusts may be revised to accommodate the rule allowing portability of the estate-tax exemption.

Under the "portability" provision for a married couple, the unused portion of the estate-tax exemption of the first spouse to die may be carried over to the estate of the surviving spouse. This tax break is now a permanent part of the tax code.

Tip: The annual gift-tax exclusion allows you to give up to $14,000 to a recipient in 2016 ($28,000 for joint gifts by a married couple) without any gift tax, thereby reducing your taxable estate.

Miscellaneous

*Under the "wash sale rule," you cannot deduct a loss on securities sales if you acquire substantially identical securities within 30 days. The simplest way to avoid this result is to wait at least 31 days before you repurchase the same or similar securities.

*Contribute up to $18,000 to a 401(k) in 2016 ($24,000 if age 50 or older). If you clear the 2016 Social Security wage base of $118,500 and promptly allocate the payroll tax savings to the 401(k), you can increase your deferral with no further reduction in your take-home pay.

*The PATH Act permanently preserves the tax exclusion for distributions from an IRA to a qualified charity by taxpayers age 70½ or older. The limit is $100,000 per taxpayer.

*New temporary regulations could have a major impact on valuations of transfers of business interests for estate- and gift-tax purposes. Arrange a consultation as soon as possible if this might affect you.

OFFSHORE ACCOUNT DISCLOSURES

If during 2016 you had a financial interest in, or signature authority over, at least one financial account located outside the United States, and the aggregate value of all your foreign financial accounts exceeded $10,000 at any time during 2016, you must file electronically with the Treasury Department a Financial Crimes Enforcement Network (FinCEN) Form 114, *Report of Foreign Bank and Financial Accounts* (FBAR). We would be happy to assist you with the preparation and electronic filing of this form.

The new Form 114 replaces TD F 90-22.1 and is due to the Treasury Department by April 17, 2017.

STATE TAXES

Year-end tax projections are especially important for state taxes. Just like the IRS, states generally impose withholding and estimated tax requirements, and they charge underpayment penalties if sufficient payments are not made during the year.

State taxes are deductible in computing federal income tax and the timing of payments may be important. A tax-planning strategy is to prepay by December 31, 2016 state tax estimates due in January 2017 and projected balances due on April 17, 2017 to accelerate deductions into 2016.

However, this strategy is not beneficial for a year in which you are paying the alternative minimum tax since the AMT does not allow deductions for taxes, including state income taxes. If this sounds complicated, that is because it is. A tax projection is the best way to approach this issue.

Alabama law actually provides several deductions not allowed by Federal law. These include:

*Taxpayers may deduct up to $5,000 for a single filer and $10,000 for a joint filer for contributions to an Alabama Section 529 college savings plan.

*Like Federal law, Alabama allows a deduction for insurance premiums paid for a qualified long-term care policy. But, for Alabama purposes the premiums are not subject to the limitations for out-of-pocket medical expenses like they are for Federal purposes.

*Alabama law allows a deduction for the lesser of $3,000 or 50% of the costs to retrofit a new or existing home to prevent damages associated with windstorm events or floods.

*The parent of a student enrolled in or assigned to attend a failing school qualifies for a refundable Alabama credit for the cost of transferring the student to a non-failing public school or private school of the parent's choice. The credit equals 80 percent of the average annual state cost of attendance for a public K-12 student during the applicable tax year or the actual cost of attending a non-failing public school or private school, whichever is less. Private schools must participate in the scholarship contribution credit program to be eligible to participate in the failing schools credit program. A parent is allowed a credit against income tax for each taxable year. However, parents of current private school students, including those living in an area zoned for a failing school, do not qualify for the credit.

*In addition to the regular Alabama income tax deduction that a qualifying employee may be entitled to with respect to the payment of health insurance premiums, qualifying employees are allowed to deduct from Alabama gross income an additional 100 percent of the amounts they pay as health insurance premiums as part of an employer provided health insurance plan provided by a qualifying employer.

New Alabama Tax Credits

The Alabama Renewal Act of 2016 established two new state income tax credits: (1) the “Port Credit” that is applicable to taxpayers who export goods through a public port; and (2) the “Growing Alabama Credit” that allows taxpayers to receive a dollar for dollar credit of up to 50% of their Alabama tax liability for cash contributions to local economic development organizations.

The Small Business and Agribusiness Jobs Act of 2016 provides for a onetime credit against both individual and corporate tax for qualifying small business employers that hire new employees in the state. The employer must be headquartered in Alabama and have 75 or fewer employees. The credit is equal to $1,500 for each new qualified employee who earns at least $40,000 in annual wages, is an Alabama resident, but cannot be claimed by the employer until the year in which the new employee has completed 12 months of consecutive full-time employment. The credit is applicable to employees hired after July 25, 2016.

IDENTITY THEFT

Tax fraud through the use of identity theft tops the IRS list of tax scams. Tax returns and tax information should be safeguarded.

Shredding is the recommended means for disposing of unneeded financial records. Keep in mind, also, that the IRS does not initiate contact with taxpayers by phone or email to request personal or financial information. Don't be a victim of a phishing scam. Only respond to IRS communications received by US mail and preferably even then only after you have let us review it for you.

If you are on the move, notify the IRS of your change of address. For name changes because of marriage or divorce, for example, be sure to notify your local Social Security Administration office.

CONCLUSION

Tax planning is an ongoing process. Your tax picture can change – sometimes dramatically – during the course of a year, and you need to react accordingly. Implementing thoughtful yearend strategies now may help you lessen the taxes you face in April 2017.

One final thought: Saving taxes is generally a good strategy. But making a bad business, investment or personal decision just to save some tax dollars is *never* a good strategy.

Although this letter has covered a number of topics, it undoubtedly did not address every issue relating to your specific situation. Our tax advisers are here to offer guidance through the complex maze that is the U.S. tax system and suggest strategies to minimize your tax liability.

Sincerely yours,

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The technical information in this newsletter is necessarily brief. No final conclusion on these topics should be drawn without further review and consultation.