Hing Accountancy Corporation
Certified Public Accountants

November 2016

Dear Clients:

The elections are now over and we have a little more clarity as to what may happen to our tax rates for 2016. There is still time to react to some of the changes that will take effect, and educating you about these changes is the best way for you to make an informed decision. As such, we provide the following summary for your review:

Effective for 2016, there are very few changes to make note of:

- Federal Tax rates will remain similar to 2015 but adjusted for inflation. The maximum Federal tax rate will continue to be 39.6% for married taxpayers filing jointly with income over $415,050.
- Net Investment Income Tax remains at 3.8% of investment income over $200,000 for Individuals and $250,000 for married couples.
- Itemized deductions will be phased out due to income in 2015 for Individual income over $259,400 and Married couples over $311,300.
- IRC Section 179 deductions will remain at $500,000. California's deduction remains at $25,000.
- Federal Bonus depreciation allows a 50% deduction of the cost. California does not conform.
- Self employed health insurance premiums continue to be 100% deductible.
- Standard automobile mileage allowance is .54 per mile.
- AMT exemption amounts are $41,900 less for married couples and $53,900 for single taxpayers
- Each Taxpayer is entitled to a unified gift/estate amount of $5,450,000 for 2016 and a gift/estate tax rate of 40%. You should discuss these implications with us and your estate planning advisors, especially if your net worth is over $5 million.
- For California married incomes over $537,500 (single over $268,750), there will be a graduated increase of 1% up to 3% on California's highest rate of 9.3% (i.e. 10.3%-12.3%).

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- California also imposes 1% mental health services tax on incomes over $1 million.

- California's state wide sales tax will drop 0.25% on January 1, 2017

Courses of Action you may want to think about

- Plan how much, if any, capital gains on appreciated securities you would want to recognize in 2016. Talk with your investment advisor now to prioritize what holdings should be sold. In addition, you may want to reevaluate including municipal bonds and other investments in your portfolio as the tax implications of such holdings compared to common stocks may be changing.
- Consider converting an IRA to a Roth IRA after income tax rates decrease next year. Generating tax free income retirement will become more valuable as there will be significant pressure on tax rates to fund programs like Social Security and Medicare.

With a tax rate changes looming, the usual advice for deferral of income may be appropriate. Planning to accelerate deductions so that it is taxed at the current high rates may be your best course of action, while deferring income to the potentially lower rate years may be appropriate. Also, consideration to gifting a portion of your estate now or using some of your assets to purchase life insurance as a hedge against the estate tax may be worth looking into.

We encourage you to open up a dialogue with us, your investment advisor and your estate advisor as soon as possible to try and take advantage of the tax laws before they change. Please let us know if you have any questions.

Very truly yours,
Hing Accountancy Corporation