The tax information in this guide is a high-level summary of certain federal tax rules. The rules described below are highly complex and exceptions may apply (only certain of which are addressed in this guide). In using this guide, you should confirm with a tax advisor whether and how the rules noted below apply to your particular circumstances.
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Tax planning has always been important. For 2017, the story is no different. If your goal is to reduce your income tax burden, effective tax planning can help. And the sooner you begin, the more time you’ll have to look at your situation and identify potential tax-saving opportunities.

Minimizing your federal income tax liability is all about planning ahead and knowing the rules. This guide offers valuable tips and strategies to help you lower your tax liability and take advantage of the many tax-saving provisions contained in the federal tax code. It also identifies important tax changes and how they might affect you or your business.

Keep in mind that everyone’s tax situation is different, and tax rules can be complex. So be sure to work with a tax professional before applying the tips and strategies discussed here.

New for 2017

Various tax law limits have risen and tax brackets have shifted upward due to inflation adjustments. Each year, the IRS reviews a number of limits contained in the tax code and the individual income tax brackets, adjusting them for inflation where necessary.

10% floor on medical expense deduction takes effect for taxpayers age 65 or older. Starting in tax year 2017, for all taxpayers, only the amount in excess of 10% of adjusted gross income (AGI) will be deductible. Previously, the deduction floor was 7.5% of AGI for taxpayers age 65 and up.

Remember changed filing deadlines for partnerships and C corporations. Starting with returns filed for the 2016 tax year (due in 2017), businesses organized as partnerships will see their filing deadlines moved up by one month, generally from April 15 to March 15. C corporations will have their deadlines moved back by one month; e.g., from March 15 to April 15* for corporations that report on the basis of a calendar year. The change in the filing deadline is deferred by 10 years for corporations with fiscal years ending June 30.

* The April 15 filing deadline is extended to April 18, 2017, because of the Emancipation Day holiday.

TIP: It is generally more favorable for married couples to file jointly rather than separately. Joint filers may claim certain benefits and credits not available to separate filers.

The Big Picture

Individuals looking to minimize tax liability may want to start with the basics. That means knowing the essential areas where you may have the opportunity to exclude or defer income, maximize deductions, or take advantage of tax credits. Ask yourself these questions:

What’s your filing status? Your filing status determines how you are taxed — as a single individual, a married couple, or another status. Different filing statuses can have different tax consequences. If you are married, you have the option of filing jointly or separately, and if you are single, you may file as head of household if you provide a home for a qualifying person.

How many exemptions can you claim? Exemptions can include yourself, your spouse, and your dependents. You generally may reduce your income by $4,050 for each exemption you claim, although if your AGI exceeds a specified amount, your deduction for personal exemptions will be less.
**What must you report as income?** You must generally report any income that you received during the calendar year, including wages, tips, interest and other investment income, and income from other sources.

**TIP:** Gifts and inheritances generally do not have to be reported as income. However, there are certain important exceptions. For example, if you inherit a traditional individual retirement account (IRA) or a qualified retirement plan account, you’ll generally have to pay income taxes on the money you withdraw from the account.

**What about the AMT?** The alternative minimum tax, or AMT, is an alternative tax system that parallels the regular federal tax. It has its own set of rates and rules for deductions, which are more restrictive than the regular rules. If you’re already paying at least as much under the regular income tax as you would under the AMT, you don’t have to pay it. But if your regular tax falls below this minimum, you’ll have to make up the difference by paying the AMT.

Certain circumstances and tax items are likely to trigger the AMT, including a higher-than-average number of personal exemptions, sizable itemized deductions for state and local taxes, a large spike in capital gains, and the exercise of incentive stock options. Because large one-time gains and big deductions that trigger the AMT are sometimes controllable, you may be able to avoid or minimize the impact of AMT by planning ahead.

A certain amount of income is exempt from the AMT.

**2017 AMT Exemption Amounts***

<table>
<thead>
<tr>
<th>FILING STATUS</th>
<th>RATE (%)</th>
<th>TAXABLE INCOME ($) BRACKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>10</td>
<td>0–9,325</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>9,326–37,950</td>
</tr>
<tr>
<td></td>
<td>25</td>
<td>37,951–91,900</td>
</tr>
<tr>
<td></td>
<td>28</td>
<td>91,901–191,650</td>
</tr>
<tr>
<td></td>
<td>33</td>
<td>191,651–416,700</td>
</tr>
<tr>
<td></td>
<td>35</td>
<td>416,701–418,400</td>
</tr>
<tr>
<td></td>
<td>39.6</td>
<td>Over 418,400</td>
</tr>
<tr>
<td>Head of household</td>
<td>10</td>
<td>0–13,350</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>13,351–50,800</td>
</tr>
<tr>
<td></td>
<td>25</td>
<td>50,801–131,200</td>
</tr>
<tr>
<td></td>
<td>28</td>
<td>131,201–212,500</td>
</tr>
<tr>
<td></td>
<td>33</td>
<td>212,501–416,700</td>
</tr>
<tr>
<td></td>
<td>35</td>
<td>416,701–444,550</td>
</tr>
<tr>
<td></td>
<td>39.6</td>
<td>Over 444,550</td>
</tr>
<tr>
<td>Married filing jointly (and surviving spouses)</td>
<td>10</td>
<td>0–18,650</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>18,651–75,900</td>
</tr>
<tr>
<td></td>
<td>25</td>
<td>75,901–153,100</td>
</tr>
<tr>
<td></td>
<td>28</td>
<td>153,101–233,350</td>
</tr>
<tr>
<td></td>
<td>33</td>
<td>233,351–416,700</td>
</tr>
<tr>
<td></td>
<td>35</td>
<td>416,701–470,700</td>
</tr>
<tr>
<td></td>
<td>39.6</td>
<td>Over 470,700</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>10</td>
<td>0–9,325</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>9,326–37,950</td>
</tr>
<tr>
<td></td>
<td>25</td>
<td>37,951–76,550</td>
</tr>
<tr>
<td></td>
<td>28</td>
<td>76,551–116,675</td>
</tr>
<tr>
<td></td>
<td>33</td>
<td>116,676–208,350</td>
</tr>
<tr>
<td></td>
<td>35</td>
<td>208,351–235,350</td>
</tr>
<tr>
<td></td>
<td>39.6</td>
<td>Over 235,350</td>
</tr>
</tbody>
</table>

* Exemptions are phased out for higher income taxpayers.
Adjustments, Deductions, and Credits

Generally, the IRS offers three opportunities for taxpayers to reduce their tax bill: above-the-line adjustments to taxable income, below-the-line deductions, and credits that reduce your tax.

Contribute to an IRA... You may be able to reduce your AGI by contributing to a traditional IRA. See page 14 for more information.

...Or to a SIMPLE or SEP IRA. If you are self-employed, you may be able to deduct up to $12,500 ($15,500 if you will be age 50 or older at any time in 2017) plus amounts representing employer contributions for a contribution to your SIMPLE IRA, or up to $54,000 or 20% of your adjusted net earnings from self-employment, whichever is lower, for a contribution to your Simplified Employee Pension (SEP IRA) account.

Open an HSA. If you’re eligible for one, making tax-deductible contributions to a health savings account (HSA) is another way to lower your AGI. An HSA is a tax-advantaged account that features tax-free reimbursements for qualified health care costs. See page 21 of this guide for more information.

Subtract student loan interest. Other than mortgage interest, personal interest generally isn’t deductible on your tax return. However, if your modified adjusted gross income (MAGI) is less than $80,000 ($165,000 if filing a joint return), you may be able to claim up to $2,500 of interest paid on a student loan as an above-the-line deduction on your 2017 return.

Consider itemizing your deductions. The IRS allows individuals to take a standard deduction or to itemize deductions on Form 1040 Schedule A. Many people, especially those with mortgages, those who pay significant state and local taxes, or those who make sizable gifts to charity, will have a larger deduction if they itemize.

Is It Deductible?
A sampling of items and if they are tax deductible:

<table>
<thead>
<tr>
<th>Item</th>
<th>Deductible Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health care co-pays and out-of-pocket expenses</td>
<td>Yes, but only for amounts that exceed 10% of your AGI.</td>
</tr>
<tr>
<td>Vacation home mortgage interest</td>
<td>Yes, but you may only deduct interest on mortgages on your principal residence and one other residence that are secured by such residences. The total debt generally cannot exceed $1 million, plus up to $100,000 of home equity debt ($500,000/$50,000 for a married individual filing separately).</td>
</tr>
<tr>
<td>Casualty/theft losses</td>
<td>Yes, but only if large — for amounts that exceed 10% of your AGI.</td>
</tr>
<tr>
<td>Closing costs on a mortgage or refinancing</td>
<td>No (except for amounts constituting home mortgage interest and certain real estate taxes). But you may deduct prepaid points on a mortgage and on a refinancing in certain situations, for example, to the extent that you spend the proceeds on improvements to your principal residence.</td>
</tr>
<tr>
<td>Unreimbursed employee business expenses</td>
<td>Yes, but these expenses are combined with certain miscellaneous expenses, and only the amount over 2% of your AGI is deductible.</td>
</tr>
<tr>
<td>Clothing and household items donated to charity</td>
<td>Yes, but they generally must be in good used condition or better, and you will need to document how you arrived at a fair market value and get a receipt if possible. Additional requirements apply for a contribution of $250 or more.</td>
</tr>
</tbody>
</table>

Reduce your tax with credits. Tax credits can be especially valuable if you are eligible to claim them. Whereas adjustments and deductions reduce your taxable income, credits are subtracted directly from your tax liability, and they generally lower your tax liability for the full amount of the credit.
Take Credit

Here are some credits that you may want to check into.

- **Credit for excess Social Security withholding** — Most employers are required to withhold Social Security tax from your wages. If you had two or more employers during the year and your combined earnings are over the Social Security wage base, you may find that too much Social Security tax was withheld from your pay. In this situation, you may be eligible to claim a credit for the overpayment.

- **AMT credit** — If you are not subject to the AMT this year but were in a prior year, you may be eligible for the AMT credit. The credit applies to certain items, such as depreciation or incentive stock option adjustments, that may have been used in the AMT calculation. Note that it does not apply to excluded deductions, such as state tax paid.

- **Adoption expense credit** — If you adopt a child, you may be able to take a credit for certain expenses associated with the adoption. These generally include adoption fees, court costs, and attorney fees, among other expenses. The credit is subject to income limitations but can be significant — up to $13,570 per eligible child for 2017. So if you are adopting, make sure you document all expenses and keep all receipts.

- **Credit for child and dependent care expenses** — If you have a child who is under age 13 or a dependent who is not able to care for himself or herself, you may be able to claim a credit for costs incurred in obtaining care so that you (and your spouse) can work or look for work. The credit can be for 20% to 35% of qualifying expenses, up to a maximum of $3,000 of expenses for the care of one person ($6,000 for two or more). Note that the credit is subject to a number of restrictions, so you’ll want to see if your circumstances make you eligible.

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**Taxes on Investments**

While taxes should not be the primary driver of investment decisions, they can play an important role in your investment strategy. Here are several rules and tax-planning tips you will want to consider.

**Capital gains and losses.** The length of time you hold an investment before selling it (your holding period) generally determines whether your capital gain or loss is considered long-term or short-term. The short-term holding period is one year or less. The long-term holding period is more than one year. Holding periods are important because a net long-term capital gain is generally taxed at a lower rate than a short-term gain, which can be taxed at rates as high as 39.6% (plus any net investment income tax that may apply).

If you have a capital loss, the loss may be used to offset capital gain and up to $3,000 ($1,500 if married filing separately) of ordinary income. Unused capital losses may be carried forward for use in future years, subject to the same limitations.

**TIP:** If you anticipate significant capital gains liability in 2017, consider realizing some offsetting capital losses on investments you no longer want to own.

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**Long-term Capital Gain/Qualified Dividend Rates**

<table>
<thead>
<tr>
<th>Rate Bracket</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% and 15% ordinary rate brackets</td>
<td>0%</td>
</tr>
<tr>
<td>25%–35% ordinary rate brackets</td>
<td>15%</td>
</tr>
<tr>
<td>39.6% ordinary rate bracket</td>
<td>20%</td>
</tr>
</tbody>
</table>

*The maximum rates for gains on collectibles and real estate (to the extent of prior depreciation) are different: 28% and 25%, respectively.*
Net investment income tax. Taxpayers with higher incomes may find themselves subject to an additional 3.8% tax on the lesser of: (A) net investment income, or (B) the excess of MAGI over the threshold amounts below. This tax took effect in tax year 2013 and applies to single filers with MAGIs above $200,000 ($250,000 for joint filers and $125,000 for married taxpayers filing separately). Net investment income generally includes interest, dividends, annuities, royalties, rents, net capital gain, and income earned from passive trade or business activities reduced by related deductions.

TIP: If you plan to sell appreciated securities during the year and think the gain might subject you to the net investment income tax, consider donating the securities instead. When you give appreciated stock held more than one year to a qualified charity, you generally may deduct the fair market value as a charitable contribution (up to 30% of your adjusted gross income), but you will not have to report the associated capital gain on your tax return. Alternatively, you may be able to defer gains subject to the 3.8% tax by spreading them out with an installment sale, whereby you receive sales proceeds over several years. (The installment sale method may be appropriate for sales of investment real estate but is not available for sales of publicly traded securities; other restrictions apply.)

Are your dividends qualified?

Certain dividends are subject to lower tax rates — the same rates that apply to long-term capital gains. If you rely on dividends for income, you may want to make sure they are qualified for the lower rate. To be qualified, the dividend must be paid by a U.S. corporation or a qualified foreign corporation. You must have owned the stock for a minimum required holding period. And you may not have hedged the stock with puts, calls, or short sales during the holding period.

Note that the following are not considered qualified dividends:

- Capital gains distributions
- Dividends from real estate investment trusts (limited exceptions apply)
- Dividends paid by tax-exempt entities
- Dividends paid on savings or money market accounts

Bond income: muni versus taxable. One simple way to lower taxes on investment income is with municipal bonds, or munis. Interest paid on munis, which include certain bonds issued by states and local government entities and authorities, is generally exempt from federal income tax. It may be exempt from state and local tax as well, depending on the issue and whether you reside in the same state as the issuer. (Interest on certain “private activity bonds” is included in income for AMT purposes.)

How Bond Interest Is Taxed

<table>
<thead>
<tr>
<th>Bond Type</th>
<th>Tax Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate bonds</td>
<td>Taxable at federal and state levels</td>
</tr>
<tr>
<td>U.S. Treasury bonds</td>
<td>Taxable at federal level but not state</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>Generally tax exempt at federal level. May also be exempt at state and local levels, depending on the specific issue and your state of residence</td>
</tr>
</tbody>
</table>
Break for investing in small businesses. If you have invested money in the stock of a small business, you may qualify for a significant tax break. A law passed in 2015 makes permanent the exclusion of up to 100% of the gain on the sale or exchange of qualified small business stock (QSBS) held for more than five years. In addition, the gain may not be subject to the 3.8% tax on net investment income. The amount of the exclusion varies between 50% and 100%, depending upon when you acquired the stock. To qualify as a QSBS, the company cannot have aggregate gross assets exceeding $50 million, and it must meet certain other restrictions.

Tips for Homeowners
If you are a homeowner or are thinking about buying a home in the near future, you may benefit from some of the tax breaks available to those who own their residences. These include deductions, exclusions, and credits. But to take full advantage of them, you will want to plan ahead.

Deduct mortgage interest. The IRS lets you deduct amounts you paid during the year for interest on mortgages or home equity loans and lines of credit secured by your primary and secondary residences. In 2017, you may deduct interest paid on acquisition debt up to $1 million, as well as interest paid on up to $100,000 of home equity debt, regardless of how you use the proceeds.

TIP: A home equity loan can be a smart way to consolidate debt, such as credit card balances, auto loans, or student loans, which typically carry much higher interest rates. But remember that a home equity line of credit should be used wisely and not as a checkbook. Balances subtract from your net equity and must eventually be paid off. Moreover, your home would serve as security for the loan.

Exclude gains when you sell your home. Before you consider selling your principal residence, you may want to find out if any gain from the sale will qualify for an exclusion. Single filers are allowed to exclude up to $250,000 of gain from their income, while joint filers may exclude up to $500,000. To qualify, you must have owned the property and used it as your principal residence for at least two of the last five years. Additionally, the exclusion generally may be used only once every two years.

TIP: If you split your time between two homes and are considering selling one of them, make sure you meet the ownership terms of the exclusion and that your primary residency and timing are well documented. Keep in mind that residency may also have other tax consequences — such as being subject to state or local tax. So be sure to weigh all factors and requirements before deciding on residency.

Deduct the expenses of a rental property. If you own an investment property, you can treat certain expenses associated with maintaining and managing it as tax-deductible expenses, reportable on Schedule E. These include property taxes, repairs, utilities, and maintenance costs. Importantly, you may also depreciate the property, which could produce a tax loss. Rental real estate losses of up to $25,000 a year ($12,500 for certain married taxpayers filing separately) are potentially deductible against your other (nonpassive) income if you own at least a 10% interest in the property and “actively participate” in the rental activity. The loss deduction is subject to an income-based phaseout.
If you rent out a vacation property, the tax treatment of income and expenses depends upon how much you use the property for personal purposes. If you rent it out for less than 15 days during a taxable year, you do not need to include the income as gross income on your tax return. For tax purposes, the property is considered a personal residence, so you deduct mortgage interest and property taxes just as you do for your principal home. If you rent it out for more than 14 days, you must report all rental income, and you may deduct certain expenses, prorated for the proportion of time the property is not used for personal purposes. But if you use the property for personal purposes for more than 14 days, or more than 10% of the number of days it is rented out — whichever is more — it is considered a personal residence, and any losses may be limited or not deductible.

**TIP:** Days spent working full-time to repair and maintain a vacation home don’t count as days of personal use.

**Take credits for solar energy improvements.** If you install qualified solar electric property or solar hot water heaters in your residence, you may be eligible for a credit for as much as 30% of the cost of installation. The 30% credit rate is available for property placed in service through 2019, but drops to 26% for property placed in service in 2020 and to 22% for property placed in service in 2021.

**Saving for Retirement**

Uncle Sam offers a number of tax-advantaged alternatives to help you save for retirement.

**Traditional IRAs.** You may be able to reduce your taxable income by as much as $5,500 ($6,500 if you will be age 50 or older at any time in 2017) by contributing to a traditional IRA. You generally won’t pay tax on deductible contributions or earnings until you withdraw the money in retirement, allowing your money to grow tax deferred. Certain income restrictions limit (or eliminate) the deduction if you or your spouse participate in a workplace retirement savings plan, such as a 401(k). Amounts withdrawn from a traditional IRA before you reach age 59½ may be subject to a 10% early withdrawal tax as well as regular income tax.

**Roth IRAs.** Like traditional IRAs, Roth IRAs let you save for retirement in a tax-advantaged manner. But with a Roth IRA, you make your contributions in after-tax dollars, and qualified withdrawals — including account earnings — are federal tax free if you satisfy certain requirements. Generally, to be eligible to contribute to a Roth IRA for 2017, your MAGI can’t be more than $133,000 if you are single, $196,000 if you are married and file a joint return, and $10,000 if you are married and file a separate return. Roth IRA contribution limits are subject to phaseout based on your MAGI. Roth IRAs are not subject to required minimum distributions during the account owner’s lifetime, so you can let your savings accumulate for as long as you like.

**Traditional or Roth: Weighing the options**

**You may prefer a traditional IRA if:**

- You are in a high tax bracket, qualify for a deduction, and could use the tax deferral on current income.
- You anticipate being in a lower tax bracket in retirement.
- You (or your spouse) do not contribute to an employer-sponsored retirement plan.

**You may prefer a Roth IRA if:**

- You desire federal tax-free withdrawals in retirement.
- You anticipate being in a higher tax bracket in retirement.
- You wish to avoid required minimum distributions and bequeath a large portion of your IRA to heirs.
- You are still many years away from retirement.

These are only some of the tax factors that may be relevant. Be sure to consult your tax advisor regarding your specific situation.
Workplace retirement savings plans. Your employer-sponsored retirement savings plan can be a good way to lower your current tax bill while saving for retirement. These plans generally feature pretax contributions and tax-deferred earnings. What’s more, your employer may offer matching or other employer contributions. Certain plans may also offer a Roth contribution option. With a Roth option, your contributions are made after tax, but qualified distributions are generally free of federal tax. Self-employed individuals also have several tax-advantaged alternatives to save for retirement.

Living in Retirement

If you are retired, there are a number of strategies you can employ to minimize your taxes. Below are answers to some frequently asked tax questions.

Will you have to pay taxes on your Social Security benefits? It depends on how much income you receive from other sources. A portion of your Social Security benefits may be taxable at ordinary rates if you have provisional income — defined as modified AGI plus half your Social Security benefits plus certain other adjustments — that exceeds certain levels.

<table>
<thead>
<tr>
<th>PERCENTAGE OF BENEFITS THAT WILL BE TAXABLE</th>
<th>PROVISIONAL INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SINGLE OR HEAD OF HOUSEHOLD</td>
</tr>
<tr>
<td>0%</td>
<td>$25,000 or less</td>
</tr>
<tr>
<td>Up to 50%</td>
<td>$25,000–$34,000</td>
</tr>
<tr>
<td>Up to 85%</td>
<td>Over $34,000</td>
</tr>
</tbody>
</table>

* The provisional income threshold is zero for married persons filing separately who do not live apart from their spouses for the entire year.

Will you have to take minimum distributions? If you are at least 70½ or will be by the end of 2017, you generally will need to start taking annual required minimum distributions (RMDs) from your traditional IRA, and, if you have terminated employment, from your 401(k) account, or other employer-sponsored retirement plan account. The amount you must withdraw depends on your age and account balance as of the close of the prior year.

The year you turn 70½ (or by April 1 of the following year), you will generally have to withdraw approximately 3.6% of your beginning-of-year balance, but this percentage climbs as you get older, exceeding 15% per year once you reach 100. If you do not withdraw the required minimum, you may face a stiff 50% tax on the amount you should have withdrawn. Note that the required distributions differ for inherited IRAs and where the account owner’s spouse is the sole beneficiary and is more than 10 years younger than the account owner. RMD rules do not apply to Roth IRAs during the account owner’s lifetime. There are additional RMD rules, so consult with your tax advisor.

TIP: If you have more than one retirement plan, you’ll need to calculate the RMD for each plan separately. However, generally you may add the RMD amounts for all traditional IRAs and withdraw the total amount from any one or more of your traditional IRAs.

What are the tax considerations when deciding which accounts to draw down first? You may have assets in both tax-deferred accounts, such as a traditional IRA, and taxable accounts, such as a brokerage account. Distributions from tax-deferred accounts generally are taxed at ordinary income tax rates, and taxes typically apply to the full amount of the distribution. With taxable accounts, you pay taxes when you sell securities to fund a distribution, but only on investment gains. If the investments in these
accounts have been held for more than one year, the gains are taxed at long-term capital gains rates, which are lower than ordinary tax rates.

It is generally a good practice to withdraw assets from taxable accounts first — allowing your tax-deferred investments to continue to grow and deferring the taxation of gains at their ordinary income tax rates for as long as possible. You will also want to coordinate your withdrawals with other sources of income, such as rents from an investment property. Your situation might differ, however, so be sure to consult a tax professional before taking action.

Note that mutual funds distribute income and capital gains to their shareholders. If you hold mutual fund shares in a taxable account, such distributions will be taxable to you even if you reinvest the money in additional shares.

You should consider a fund’s investment objectives, charges, expenses, and risks carefully before you invest. The fund’s prospectus, which can be obtained from your financial representative, contains this and other information about the fund. Read the prospectus carefully before you invest or send money. Shares, when redeemed, may be worth more or less than their original cost.

Education Tax Incentives

If you are currently paying for a child’s education or looking for tax-advantaged ways to save for future education expenses, you may benefit from one of the following education incentives.

529 plans. These state-sponsored plans come in two varieties: prepaid tuition plans and college savings plans. Prepaid tuition plans allow you to lock in tomorrow’s tuition at today’s rates, taking tuition inflation out of the equation.

529 college savings plans are investment vehicles in which earnings are tax deferred and distributions (including earnings) used for qualified higher education expenses are tax free. 529 plans offer generous contribution limits. You can contribute up to $14,000 per year or $28,000 for a married couple who elects to split gifts (this limit is inflation-adjusted periodically), in after-tax dollars, without triggering federal gift-tax consequences, and lifetime contribution limits exceed $250,000 in most states. Donors generally also have the option of averaging a single lump-sum contribution over five years, effectively allowing them to give up to $70,000 or $140,000 for a married couple who elect to split gifts at one time, gift-tax free.

TIP: When shopping for a 529 plan, make sure to consider state tax benefits. By investing in a 529 plan outside of the state in which you pay taxes, you may lose the tax breaks offered by your state’s plan.

Before investing in a 529 plan, consider the investment objectives, risks, and charges and expenses associated with municipal fund securities. The issuer’s official statement contains more information about municipal fund securities, and you should read it carefully before investing.

Coverdell education savings accounts (ESAs). Like a 529 college savings plan, an ESA allows you to save for future college expenses, with tax-free withdrawals for qualified education expenses. Unlike a 529 plan, however, an ESA can be used for qualified elementary or secondary school expenses as well. Contributions are generally capped at $2,000 annually per beneficiary and are made with after-tax money. Note, however, that there is a contribution phaseout and you cannot contribute to an ESA if your MAGI is more than $110,000 if your filing status is single or more than $220,000 if it is married filing jointly.
Education credits. There are two education credits you may be eligible to claim if you (or an eligible dependent) are pursuing a degree or just taking courses for career advancement. The American Opportunity Tax Credit lets you lower your taxes by up to $2,500 per year (per eligible student) for the payment of tuition and related expenses for the first four years of post-secondary education. The credit phases out with MAGI between $80,000 and $90,000 for single filers, or between $160,000 and $180,000 on a joint return.

The Lifetime Learning Credit is for qualified tuition and related expenses paid for undergraduate, graduate, and professional degree courses — including courses to acquire or improve job skills. The credit is worth up to $2,000 per year. To claim the credit, your MAGI must be $66,000 or less if you are a single filer or $132,000 or less if you are married and filing jointly. Note that you may not claim both credits for the same expenses, and other restrictions may apply.

Health Care Considerations

Under the Affordable Care Act, most Americans must have “minimum essential coverage” or pay a shared responsibility payment (penalty) with their federal tax return. Most taxpayers will simply need to check a box on their tax return to indicate they had health coverage for all of 2017. But if you did not have minimum essential coverage or wish to claim an exemption or a credit, you may need to file additional forms.

What if you are not insured?

For any month you don’t have qualifying health care coverage and are ineligible for a coverage exemption, you may be required to make a shared responsibility payment. The maximum annual payment is the greater of:

1. 2.5% of your annual household income over the tax filing threshold (i.e., the minimum amount of gross income that necessitates filing a federal return); or
2. $695 per adult and $347.50 per child under 18, up to a family maximum of $2,085.

The maximum annual penalty is capped at the total yearly premium for the national average price of a Bronze plan sold through the Health Insurance Marketplace. You make the payment when you file your federal tax return for the year you don’t have coverage.

Consider an HSA or FSA. If you are enrolled in a high-deductible health plan, you may be able to take advantage of the tax benefits available through a health savings account. The money saved in an HSA may be used for co-pays, to meet deductibles, or to pay other eligible out-of-pocket medical expenses. Qualified distributions are tax free.

Contributions to a workplace HSA are made in pretax dollars, and the sponsoring employer may match a portion of your contributions or otherwise contribute. HSAs are portable from one employer to another, and unused balances carry over from year to year. If you purchase your own qualifying high-deductible health plan and are otherwise eligible, consider opening and funding an HSA. Within the limits shown, your contributions would be tax deductible.

2017 HSA Contribution Limits

<table>
<thead>
<tr>
<th></th>
<th>UNDER 55</th>
<th>55 OR OLDER*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>$3,400</td>
<td>$4,400</td>
</tr>
<tr>
<td>Family</td>
<td>$6,750</td>
<td>$7,750</td>
</tr>
</tbody>
</table>

* Applicable if age 55 or older at any time during calendar year

You also may want to consider a health care flexible spending account, or FSA, if your employer offers this option. An FSA works like an HSA in that contributions are pretax and withdrawals used to pay qualified out-of-pocket medical expenses are tax free. An FSA does not require enrollment in a high-deductible health plan, but the $2,600 2017 contribution limit is lower than the limit for an HSA, and there are restrictions on how much, if anything, can be carried over from one year to the next. There are restrictions on your ability to contribute to both an FSA and an HSA in the same year.
Choosing a Tax Structure
The way your business is structured determines how its income is taxed and how any losses are treated for tax purposes. Although other legal considerations may be critical, tax factors can also play an important role when you are choosing a structure for a new business or reviewing whether your existing business structure is advantageous for you and any co-owners you may have.

Corporate Tax Rates
A C corporation generally pays taxes on its taxable income at the rates shown below:

<table>
<thead>
<tr>
<th>TAXABLE INCOME</th>
<th>RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $50,000</td>
<td>15%</td>
</tr>
<tr>
<td>$50,001–$75,000</td>
<td>25%</td>
</tr>
<tr>
<td>$75,001–$100,000</td>
<td>34%</td>
</tr>
<tr>
<td>$100,001–$335,000</td>
<td>39%</td>
</tr>
<tr>
<td>$335,001–$10 million</td>
<td>34%</td>
</tr>
<tr>
<td>Over $10 million–$15 million</td>
<td>35%</td>
</tr>
<tr>
<td>Over $15 million–$18,333,333</td>
<td>38%</td>
</tr>
<tr>
<td>Over $18,333,333</td>
<td>35%</td>
</tr>
</tbody>
</table>

Exception: The income of a qualified personal service corporation is taxed at a flat 35% rate.

Lessen the impact of double taxation.
A corporation’s earnings are potentially subject to two layers of income tax: first at the corporate level and again to the shareholders when earnings are distributed to them as dividends. To mitigate this double taxation, shareholder-employees of closely held corporations may choose to draw out corporate earnings as compensation, which the corporation generally may deduct. However, compensation decisions should be made carefully, keeping the following tax factors in mind:

- Shareholder-employees must pay both income tax (at rates as high as 39.6%) and Social Security/Medicare tax on their compensation. Earnings over the applicable wage base escape Social Security tax, but all earnings are subject to Medicare tax. An additional 0.9% Medicare tax is imposed on earnings in excess of $200,000 ($250,000 if married filing jointly and $125,000 if married filing separately).

- Dividend income paid to individual shareholders will be taxed to them at a relatively low rate (no higher than 20%) when certain tax law requirements are met.

- Leveraging the lowest corporate rates (see table) and the favorable dividend rate through careful planning can help minimize the overall tax burden on corporate earnings.

Should you make an S election? Rather than operating their firms as C corporations, many small business owners make an S election for their companies. A corporation with a valid S election in place generally is not taxed on its income for federal tax purposes. Instead, the corporation allocates its profits, losses, and various other tax-related items to the company’s shareholders according to their ownership percentages, and the shareholders include the allocated items on their own income tax returns.
**TIP:** An S corporation should compensate its shareholder-employees for their services to the company. However, keeping these salaries at a “reasonable” level can help minimize the associated employment tax cost. After paying reasonable salaries, the company generally may distribute earnings to shareholder-employees free of employment taxes.

**Sole proprietorships.** The owner of a sole proprietorship reports the income and expenses of the business on Schedule C, an attachment to the owner’s personal income tax return. The net income of the business is generally subject to both income and self-employment taxes. If the business generates a loss, it generally may offset the sole proprietor’s income from other sources.

**Qualifying as an S Corporation**

For an S election to be valid, all shareholders must agree to it. Additionally, the corporation must:

- Be a domestic corporation
- Not be an ineligible corporation
- Have no more than 100 shareholders
- Have only one class of stock (there can be voting and nonvoting shares)
- Have only authorized types of shareholders (individuals; certain trusts, estates, and exempt organizations; no nonresident aliens)

**LLCs.** Like an S corporation, a limited liability company (LLC) is a pass-through entity whose owners (called “members”) include their allocated share of the company’s profits and losses on their tax returns, bypassing federal income tax at the entity level. However, an LLC is more flexible than an S corporation in certain respects. For example, instead of making allocations based strictly on ownership percentages, an LLC that is taxed as a partnership may provide special allocations of tax benefits to specific members. Additionally, an LLC is not subject to the S corporation restrictions on the number and types of owners it may have.

**Partnerships.** Partners have substantial flexibility in structuring their partnership agreement. Note, however, that general partners retain personal liability for business debts and obligations. A partnership passes its income, losses, etc. through to its partners for inclusion on their income tax returns.

**Retirement Plan Options**

Sponsoring a retirement plan can provide significant tax benefits for you and your business. Several types of plans are available, each with different features. Options include:

- **401(k).** This popular plan gives eligible employees the opportunity to defer a portion of their pay each year and contribute it to the plan (subject to annual contribution limits). Typically, employees are allowed to direct their own investments, usually from a menu of choices the plan makes available. Investment earnings and pretax contributions are generally tax deferred until the time of distribution. If desired, a 401(k) plan can incorporate an after-tax Roth contribution feature. Unlike distributions from a pretax 401(k) account, qualified distributions from a designated Roth 401(k) account are not subject to federal income tax.

- **Profit sharing.** A profit sharing plan is very flexible, since the decisions about whether to contribute in a given year and the contribution amount can be left to the company’s discretion. Thus, the company can make greater contributions in highly profitable years and little or no contributions in leaner years. The company does not have to make a profit in order to contribute to the plan. Contributions are subject to annual limits. A profit sharing plan can be combined with a 401(k) plan.
**Simplified employee pension (SEP).** This IRA-based plan is relatively easy to administer. Plan contributions are discretionary (and subject to annual limits), but you must contribute for all of your eligible employees in any year you contribute to your own SEP account. A SEP established after 1997 cannot accept employee contributions.

**SIMPLE IRA.** Like a 401(k), a SIMPLE IRA allows your eligible employees (and you) to contribute on a pretax basis (subject to annual limits). Your business must make tax-deductible employer contributions under a specified formula.

**Defined benefit.** Although not as commonly used as in the past, a traditional defined benefit pension plan can be ideal for older business owners who wish to accumulate benefits faster than may be possible with other types of plans. Benefits are typically based on average pay and length of service (subject to annual limits).

**Cash balance.** This hybrid plan combines certain features of a defined benefit plan and a defined contribution plan and is another option you might explore, particularly if you are interested in making large contributions (subject to annual limits).

Various contribution and other tax law limits apply to all of these plans.

**Deduction and Credit Opportunities**

Making the most of opportunities to claim deductions and credits for business expenses is a key to minimizing tax liability on business income. The tips in this section may prove helpful.

**Bad debts.** Do you have old billings lingering in your company’s accounts receivable because you can’t collect the money owed to you? Those amounts may be deductible as bad debts.

**Business autos.** If you use your personal automobile for unreimbursed business purposes, you generally may deduct the business-related portion of actual expenses (gas, oil, insurance, etc.) or use a standard mileage rate to figure the deduction. Use of the standard mileage rate simplifies recordkeeping but won’t necessarily result in the largest deduction.

Employees claim the deduction for the unreimbursed business use of a personal auto as an itemized deduction, subject to the 2%-of-AGI floor that applies to miscellaneous itemized deductions. No deduction is allowed for AMT purposes.

**TIP:** Many businesses reimburse their employees for business use of their personal automobiles. If your company does, consider setting up an “accountable” reimbursement plan to avoid the deduction limitations. With an accountable plan, employees do not have to be concerned about deducting their expenses or reporting the reimbursements as income.

**Depreciation.** The ability to write off the cost of newly acquired business assets is a valuable tax benefit. However, not all assets are treated the same for tax purposes. Case in point: It can take 39 long years to fully depreciate a commercial building and its structural components. The depreciation periods for equipment, furniture, fixtures, and certain other assets are substantially shorter. If you plan to buy or construct a new business facility, properly segregating your costs will allow you to write them off as quickly as possible.

Some of your company’s fixed asset purchases will likely qualify for “bonus depreciation.” With bonus depreciation, a business takes an immediate write-off
for a percentage of the cost of new qualified property. For qualified property placed in service from January 1, 2015, through December 31, 2017, the bonus depreciation percentage is 50%. The percentage drops to 40% in 2018 and to 30% in 2019.

**Section 179 expensing.** As an alternative to claiming depreciation deductions, consider making a Section 179 election to “expense” (deduct) the cost of business equipment and other qualifying assets in the year your business first places them in service. For 2017, the most your business may deduct under Section 179 is $510,000. The deduction is further limited to taxable income from active trades or businesses.

Once the cost of all assets eligible for Section 179 expensing exceeds an investment ceiling ($2,030,000 for 2017), the annual expensing allowance begins to be reduced dollar for dollar.

**“De minimis” election.** Many businesses have accounting procedures that call for lower cost assets to be expensed instead of capitalized. For tax purposes, you can elect the same treatment for certain asset purchases that cost up to $5,000 per invoice or item ($2,500 if your business does not have an “applicable financial statement”). Items expensed using this election don’t count against the annual Section 179 expensing limit.

**Domestic production activities.** Manufacturers and businesses engaged in certain other domestic production activities, such as engineering or construction, may be entitled to claim a deduction for 9% of their qualified production activity income (or, if less, 9% of taxable income determined without regard to the deduction). This deduction can’t be more than 50% of W-2 wages allocable to domestic production gross receipts.

**Net operating losses (NOLs).** When business deductions (computed with certain modifications) exceed gross income for the year, an NOL results. Taxpayers may use an NOL sustained during one year to reduce taxable income for another. Generally, an NOL may be carried back two years and forward 20 years. Carrying back an NOL to an earlier tax year may generate a tax refund.

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**Office in the home.** The home office deduction is one to consider if you have a home-based business or professional practice. It allows you to deduct a portion of your home-related expenses, such as electricity, heating/cooling, homeowners or renters insurance, and trash removal. Or you have the option of deducting $5 per square foot of office space (maximum of 300 square feet). To qualify for the deduction, you generally must use the space exclusively and regularly for business and meet other requirements.

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**Tax Credits**

Don’t miss any tax credits your business may be eligible to claim. Possibilities include:

- **Investment credit** — 10% or more of the costs for the (1) installation of solar or geothermal equipment or (2) qualified rehabilitation of a building first placed in service before 1936 and certified historic structures.

- **Research credit** — Generally, 20% of the amount by which qualified research expenses exceed a base amount.

- **Small employer pension plan start-up credit** — 50% of administrative and retirement-related education expenses for the first three plan years, up to a maximum credit of $500 a year.

- **Disabled access credit** — Available to eligible small businesses, this credit is for 50% of eligible access expenditures over $250 and not more than $10,250.

- **Employer-provided child care credit** — 25% of qualified expenses to buy, build, rehabilitate, or expand property that will be used as part of an employer’s child care facility plus 10% of the amount paid under a contract to provide child care resource and referral services to employees, up to a total maximum credit of $150,000 a year.

- **FICA tip credit** — Available to food and beverage tips only, this credit is for employer FICA taxes paid on employee tips in excess of the amount treated as wages in satisfaction of minimum wage requirements.
Health Care Benefits

Health care coverage is a valued employee benefit, but it also can be a large expense for employers that provide it. Tax considerations may factor into your decisions regarding the health care benefits, if any, that your business chooses to offer.

Basic rules. Generally, amounts an employer pays for group hospitalization and medical coverage for employees are deductible as a business expense, and employees may exclude those amounts from their incomes.

The tax treatment is different if you are a partner or a more-than-2% shareholder-employee of an S corporation. In either situation, the business still receives a deduction for the health insurance premiums it pays on your behalf. However, you must include those amounts in your income. You may take an offsetting deduction on your personal return if you meet the requirements for the self-employed health insurance deduction, discussed next.

Deduction for the self-employed. The cost of medical, dental, and qualified long-term care insurance for a self-employed person and eligible family members is potentially deductible above-the-line in determining AGI. This deduction is limited to earned income from the trade or business for which the plan was established, and certain other restrictions apply.

Shared responsibility provisions. If your business employs at least 50 full-time or full-time equivalent employees or is looking to expand to that level, the Affordable Care Act’s shared responsibility provisions, often referred to as the “employer mandate,” are a key concern. A business of this size (called an “applicable large employer,” or ALE) may be required to make shared responsibility payments to the IRS if it does not offer health care coverage that satisfies certain requirements. To determine whether your business is an ALE for 2017, you generally would use employee information from 2016.

### Employer Shared Responsibility Payments*

<table>
<thead>
<tr>
<th>PAYMENT TYPE</th>
<th>CODE SEC. 4980H(a)</th>
<th>CODE SEC. 4980H(b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>When it applies</td>
<td>ALE does not offer minimum essential coverage to 95% of full-time employees**</td>
<td>ALE offers minimum essential coverage to 95% of full-time employees** but that coverage is not affordable or it does not provide minimum value</td>
</tr>
<tr>
<td>Amount***</td>
<td>$180 a month (up to $2,160 annually) for each full-time employee (excluding the first 30) if at least one employee is certified to receive a premium tax credit or cost-sharing reduction</td>
<td>$270 a month (up to $3,240 annually) for each full-time employee who is certified to receive a premium tax credit or cost-sharing reduction. Cannot exceed the Code Sec. 4980H(a) payment that would have applied if the employer had failed to offer minimum essential coverage</td>
</tr>
</tbody>
</table>

* This is a very high level explanation of the shared responsibility payment rules and does not cover numerous details. Consult with your tax or legal advisor.

** Including dependents.

*** The amounts shown are for 2016 and are subject to inflation adjustment for 2017. The 2017 figures were unavailable at the time of publication.

### Reporting

An ALE must report information to the IRS and employees regarding offers of health care coverage and enrollment in the health care coverage. Reporting is required whether the coverage is through an insured plan or a self-insured health plan, although more detailed information is required for a self-insured health plan. Even if your business is not an ALE, it will have certain reporting requirements if it sponsors a self-insured health plan.
Tax credit. A small business that contributes at least 50% of the premium cost for employees’ health care coverage and purchases the insurance on the Small Business Health Options Program Marketplace (or qualified for an exception) may qualify for a tax credit. The credit is subject to phase out depending on the number of full-time equivalent employees and average annual wages but to qualify for any small employer health insurance tax credit, your business can’t have more than 25 full-time equivalent employees during the tax year and average annual wages can’t exceed $52,400 for 2017. The credit is worth up to 50% of the employer’s premium contribution (up to 35% for tax-exempt eligible small employers) and is available for two consecutive tax years starting in 2014.

Income taxes can be a large expense. By making tax planning a priority, you can help keep the taxes you are required to pay as low as possible.

We hope you will find the explanations and tips presented in this Tax Planning Guide useful in your 2017 tax-planning efforts. For planning assistance or more information about the broad range of services we offer, please contact us.

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