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What’s new for 2016 yearend tax planning

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There are three tax strategies expiring at the end of the year that clients should take advantage of before Dec. 31

By Jamie Golombek | October 17, 2016 06:00

The end of the year may seem far away, but now is a great time to focus on yearend tax planning. In particular, you should remind your clients that there are some tax strategies that will be expiring at the end of the year, so they better act quickly if they want to take advantage of these opportunities.

Here are three things to consider before Dec. 31:

1. Tax-free rebalancing of corporate-class mutual fund investments
Many mutual fund corporations are organized as "switch funds" and offer different types of asset exposure in different funds. Each fund, however, is structured as a separate class of shares within the same mutual fund corporation. The benefit of the switch fund structure is that investors are able to exchange shares of one class of the mutual fund corporation for shares of another class in order to switch their exposure among the mutual fund corporation's different funds without triggering a disposition for tax purposes.

Under the current tax rules, the exchange from one class of shares to another is deemed not to be a disposition for income tax purposes, allowing investors to take advantage of this rule and rebalance their portfolios on a tax-deferred basis. This deferral benefit is not available to taxpayers investing in mutual fund trusts or investing on their own account directly in securities.

This year's federal budget announced a change, which will be effective Jan. 1, 2017, such that a switch within the mutual fund corporation from one class of shares to another will result in a disposition for tax purposes at fair market value. In cases in which the switch occurs between different series of the same class, for which the underlying portfolio does not change but merely the fees or expenses differ, the switch will continue to occur on a tax-deferred basis.

This measure will apply to switches after Dec. 31, meaning that investors have just a few weeks to continue to take advantage of the current rules and rebalance their mutual fund corporation portfolios on a tax-deferred basis before the new rules take effect on Jan. 1, 2017.

2. Children's fitness and arts credits
This is the final year that clients can claim two popular federal credits for their children's activities: the non-refundable children's arts credit, which is based on up to $250 of qualifying expenses, and the refundable children's fitness tax credit, which is based on up to $500 of qualifying expenses.

If your clients won't be spending enough in 2016 to maximize these credits, they should consider prepaying these expenses for 2017. For example, if they plan to enroll their children in soccer or piano programs for 2017, they can claim the credit(s) in 2016 if they pay for the activities by Dec. 31.

3. School supply tax credit
Finally, remind clients who are school teachers to take advantage of the new school supply tax credit for teachers and early childhood educators. This credit is meant to compensate teachers and early childhood educators who often incur personal, unreimbursed costs to purchase teaching supplies to enhance the students' classroom learning environment.

The new tax break, which is in place for 2016 and future taxation years, allows eligible educators to claim a 15% refundable tax credit for up to $1,000 in qualifying school supply expenses each year. For the cost of supplies to qualify, employers will be required to certify that the supplies were purchased "for the purpose of teaching or otherwise enhancing learning in a classroom or learning environment." Educators should retain their receipts in case they need to be verified.

For more on yearend tax planning, register(http://www.investmentexecutive.com/-/yearend-tax-planning-2016) for Investment Executive's webinar with Jamie Golombek, which takes place on Wed. Nov. 9 at 3 pm ET.

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