

TAX ALERT: Tax Update on What We Know Now

(Email Sent 12/13/2017)

***See updated important changes as of 12/18/2017 in highlighted sections below.**

With all the tax law changes being proposed, we want to keep you apprised of what's happening at this moment, what you can do now, and what you should be preparing for as we move closer to a final tax bill. This is the first of two emails we plan to send this month so we can provide a preliminary idea of potential tax moves before year-end. We hope to send the second email once the tax bill is finalized (before year-end) and we know exactly what we are dealing with.

We know the amount of information seems overwhelming, but we urge you to take the time to read this email for potential ways to reduce your taxes and other year-end planning tips.

Year-End Planning

Assuming a tax package is passed by the end of the year, most individuals will see their ordinary income tax rates lowered in 2018. However, although the standard deduction may be doubled, many taxpayers' itemized deductions will be limited or eliminated. As a result, if tax reform is passed, there are two planning opportunities that most people should consider: (1) defer the recognition of income into 2018 and (2) accelerate payment of itemized deductions in 2017 (subject to AMT considerations).

Here are some specific examples of ways to potentially lower your tax bill based on what we currently know:

- **Take as many deductions as you can.** About one-third of U.S. taxpayers currently itemize their deductions, but many deductions are on the chopping block. Here again the House and Senate bills differ, so it's not clear yet which ones will be eliminated, changed or maintained. What is likely to happen, however, is a decline in the number of taxpayers who itemize deductions in the future. More taxpayers will instead take the standard deduction, which is essentially doubled in both the House and Senate bills (though the personal exemptions are eliminated). As a result, those taxpayers should take as many deductions as possible this year. Among the deductions that may not be around next year are those for medical and dental expenses (the House bill eliminates it; the Senate expands eligibility), alimony (nixed in the House bill), expenses for job hunting, and deductions for home offices, tax preparation and professional dues. **UPDATED CHANGES:** Medical and dental expenses will be deductible in excess of 7.5% of adjusted growth income.
- **Accelerate 2018 planned charitable giving into 2017.** [Click here to learn more.](#)
- **Prepay real estate taxes and local and state income taxes.** The House bill limits the deduction of real estate taxes to \$10,000. If your property taxes exceed \$10,000, you can pay them this year instead of next and claim that deduction on your 2017 tax return. Contact your local tax department to check on how many quarters of tax payments you can prepay. Also, consider prepaying state and local income taxes because those deductions may also be eliminated. ***UPDATED CHANGES:** According to recent news reports, prepaying state and local income taxes will not help with lowering your tax bill, so don't bother! Taxpayers may deduct up to \$10,000 total for any combination of state and local taxes, sales taxes and real estate taxes. But if you try to prepay those taxes before year-end to circumvent the limit, apparently, the new tax code won't allow it at this time.

- **Consider the Alternative Minimum Tax (AMT).** Another thing to check: whether making a prepayment, which is considered a preference item for calculation of the Alternative Minimum Tax, will subject you to the AMT. If you were subject to the AMT the previous year and your circumstances haven't changed, there's a good chance you will pay it this year, so the benefit to prepaying local property taxes will be limited or nonexistent. You may want to consult an accountant about this. Also keep in mind that the AMT is likely to change. The House bill eliminates it; the Senate keeps it but raises the threshold for income subject to the tax.
- **Consider selling some shares of stock.** The Senate Tax bill requires that investors sell their longest held shares before any others, which potentially upends the tax-loss harvesting strategies that most advisors use to minimize the tax consequences of asset sales. The first in, first out (FIFO) requirement eliminates the discretion to sell those assets that would minimize tax consequences (usually the most recently purchased shares). **UPDATED CHANGES:** This was removed from the package.
- **Pay your January 1st mortgage payment by December 31, 2017 as it includes interest for December.** All or part of the mortgage interest deduction could be lost in the final package. **UPDATED CHANGES:** Mortgage interest is limited to payments on \$750,000 of debt.
- **Generally speaking, harvest capital losses in taxable investment accounts in 2017 and apply net capital losses against ordinary income in 2017 up to any gains plus \$3,000.**
- **Defer your income.** If you are self-employed, wait until January to send invoices for payments you typically receive in December. In addition, if possible, defer income until 2018 when ordinary income tax rates may be lower. Both the House and Senate bills lower the tax rate on pass-through entities so long as they are not from a professional service firm, like a law or accounting firm. If the proposed tax rates are lower than the rate the business currently pays — the rate is now set at the marginal income tax rate of the business's owner — you should defer 2017 income into 2018. For example, if you have a marginal tax rate of 39.6% (the current top marginal rate), you would save on taxes by deferring income into 2018. How much can be deferred given the late date is a question, but in either case there is money to be saved. This area of the tax package will be hotly debated, so we will need to see how they handle pass-through income for small businesses.

Monthly Planning Letter

For more year-end planning tips, check out our December Monthly Planning Letter, which includes tips about realized gains, tax-loss harvesting, large expenses, self-employment, Roth conversions, IRA contributions, and much more. [Click here to read our \[updated\] Monthly Planning Letter.](#)

If you have any questions or feel overwhelmed about year-end planning, give us a call. We are here to help make your life easier.

Source:

Carson Group, December 2017

ThinkAdvisor, 4 Year-End Tax Tips as Overhaul Looms, December 7, 2017

Securities offered through Cetera Advisor Networks LLC, Member FINRA/SIPC. Investment advisory services offered through CWM, LLC, an SEC Registered Investment Advisor. Cetera Advisor Networks LLC is under separate ownership from any other named entity.

This email transmission and its attachments, if any, are confidential and intended only for the use of particular persons and entities. They may also be work product and/or protected by the attorney-client privilege or other privileges. Delivery to someone other than the intended recipient(s) shall not be deemed to waive any privilege. Review, distribution, storage, transmittal or other use of the email and any attachment by an unintended recipient is expressly prohibited. If you are not the named addressee (or its agent) or this email has been addressed to you in error, please immediately notify the sender by reply email and permanently delete the email and its attachments.

Professional Advice Disclosure: None of the information contained herein is meant as tax or legal advice. Tax laws are complex and subject to change. Please consult the appropriate professional to see how the laws apply to your situation.