Happy New Year - Year End Tax Planning for 2017

By Bob Deitrick, CEO

Congress finally got something done for the year, the weekend before Christmas, as they passed a sweeping overhaul of the tax code last Friday. Year-end tax moves need to be done quickly as they may be more vital this year than in any year in more than a generation. Passage of the GOP tax overhaul will mean significant changes for taxpayers in 2018.

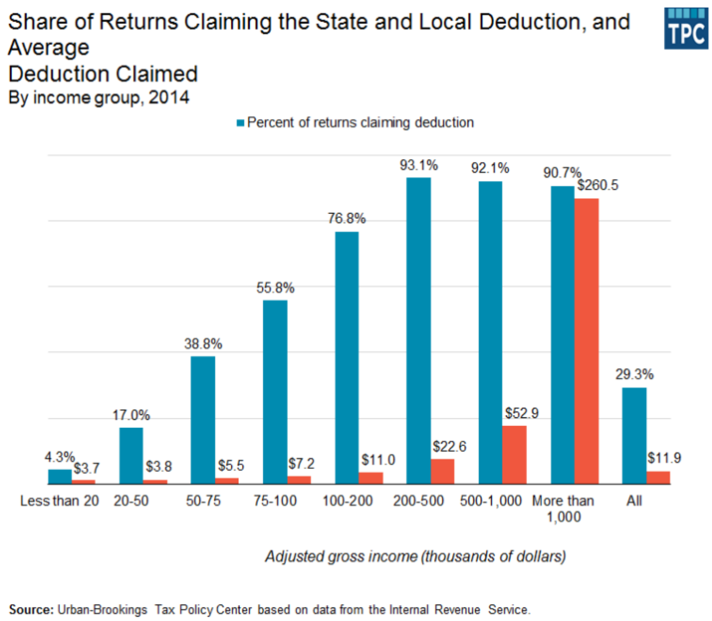
About 49 million or about 30% of taxpayers, and many of our clients, itemize their expenses for deductions on their schedule A. The new tax legislation almost doubles the standard deduction. That change and the disappearance of several key itemized deductions means it's likely that even fewer taxpayers will itemize in the future.

There is some level of simplification, but the downside is that there are certain things you are not going to be able to do anymore as well. Under the new tax legislation, an individual would need total itemized deductions to exceed $12,000, the tax bill's new standard deduction for individual taxpayers, up from the current $6,350. Married couples would need itemized deductions exceeding the new standard deduction of $24,000, up from a current $12,700.

For taxpayers taking the standard deduction, there is some level of simplification; however, there are some deductions our clients will no longer be able to take... To that end, here are five tax strategies to consider in the final days of 2017:

Get Ahead on Tax Obligations

The break for state and local taxes is substantially curtailed under the new tax law. Beginning in 2018, taxpayers can claim a federal deduction of up to $10,000, total, for a combination of state and local income taxes, sales taxes, and property taxes. For those that live in states with high-state income taxes or school districts like Olentangy or Dublin in the Greater Columbus area, that's a big hit.



The final version of the new tax law prohibits taxpayers from taking a deduction in 2017 for prepayment of 2018 state and local income taxes. However, if you pay quarterly estimated taxes which many of our clients do pay, you can make your fourth-quarter payments by Dec. 31st. You may also be able to pre-pay your property taxes for 2018. You can check with us or with your local property tax collector's office to see what your municipality will permit. Some counties and municipalities will accept tax payments earlier while others will not.

Boost Your Charitable Donations in 2017!

The deduction for charitable contributions is unchanged in the tax overhaul law. But you'll still need to itemize to claim it, and that's a much higher bar with the standard deduction having doubled.

Consider accelerating your donations to get the current tax benefit or using a donor-advised fund. A donor-advised fund allows you to make a charitable contribution and receive an immediate tax break for the donation, and then recommends grants from the fund to your favorite charities. Retirees age 70½ or older might also consider transferring money from their IRA to a qualifying charity. Such qualified charitable distributions are a tax-efficient way of meeting your RMD.

Grab Disappearing Deductions

The tax overhaul does away with a long list of deductions and credits that filers may miss, including tax breaks for tax preparation, unreimbursed employee expenses and job hunting expenses. Under current tax law, the total of these expenses must exceed two (2) percent of your adjusted gross income (AGI) to be deductible, and those expenses are not deductible for the alternative minimum tax. Some experts say this plan to eliminate the AMT may be worse than just keeping it.

You cannot accelerate all of your deductions, but you can take advantage of the break by paying for as many of those expenses as possible before year end. For example, you can prepay the anticipated

2018 fees for your tax preparer, if possible, and renew professional memberships that qualify as an unreimbursed employee expense.

Rethink a Roth Conversion

If you converted funds in a pretax IRA to a post-tax Roth IRA sometime in 2017, now is the time to make sure you're satisfied with that decision. Existing tax rules give retirement savers who make such a transaction time to change their mind and reverse course. There are plenty of reasons you might, including a drop in the account's value or an inability to pay the tax bill. Ordinarily, you'd have until October 15th of the year following the IRA conversion to undo it. But under the new tax reform bill, there are no take-backs. Now, you only have until the end of this year, 2017, to undo that conversion.

Defer Income Into 2018

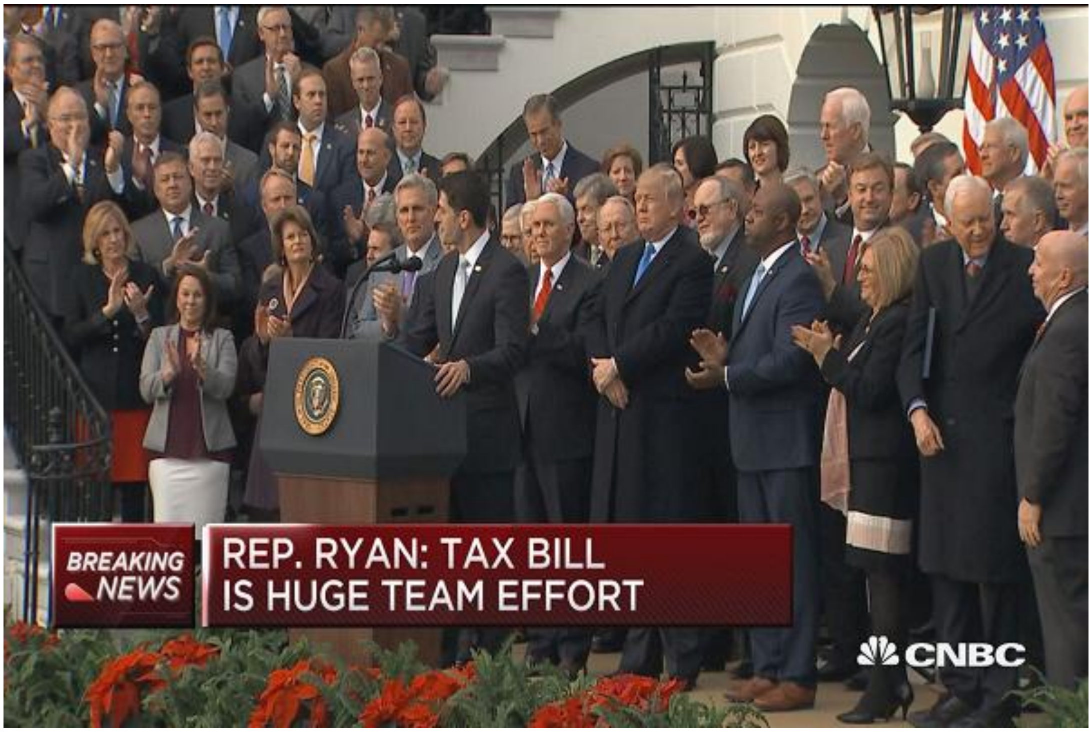
The final tax law has 7 tax brackets, as opposed to the original three proposed by the House in November, but there are changes to the rates as well as the income levels associated with each bracket.

Our clients may find themselves in a lower bracket next year. For example, a married couple with a combined income of $80,000 will be in a 22 percent tax bracket next year, compared with 25 percent (the 2018 bracket under current tax law, indexed for inflation).

We suggest that you find your new tax brackets under the final GOP tax plan. If you have the ability to control your income, particularly if you have commission-based earnings or you are self-employed, it may pay to defer your earnings and commissions to 2018. The same goes for business owners, who also may have a lower impact on their business income next year.

At multiple levels, tax rates are going to fall. If you can – defer any and all additional income into next year.

On the other hand, if you are expecting to make more income and land in a higher bracket starting in 2018, accelerate your pay for this year. Ask for payments for work done in 2017 to be paid by Dec. 31st.



Speaker Paul Ryan: "Passing tax overhaul bill was a monumental effort."

Obviously, this is a lot to consider in the last few days of 2017, but we thought it necessary to get some information out on this topic before year end; albeit, Congress has given us just a few days to do so. We will discuss this topic in greater length in the New Year and PFP will have multiple seminars on the topic in the first quarter of 2018.

Steven, Dominic and Bob wish you and your family a Happy and Prosperous 2018!