4 New Tax Tips in Light of Tax Reform

Greetings from your McRuer CPAs Tax Planning Team:

Congress appears ready to enact major tax reform law that could potentially make fundamental changes in the way you and your family calculate your federal income tax bill and, therefore, the amount of federal tax you will pay. However, until President Trump signs any tax reform bill into law, we must continue to watch and prepare the best we can by reviewing the proposed tax reforms and the solutions that will help you be more confident with your 2017 tax plan.

We have compiled some information of the tax changes that appear the most likely to occur to help guide you as you determine the best steps to take to ensure you pay no more taxes than you owe. We want to give you an overview of some tax breaks that you may qualify for as well as prepare you for any tax increases that may affect you. Keep in mind, however, that while most experts expect a major tax law to be enacted this year, it's by no means a sure bet.

We have reviewed information released by the tax preparation experts with the renowned Thomson-Reuters/Tax & Information Service. Here's what we think may happen:

Lower Tax Rates

Both the tax bill that passed the House of Representatives and the one before the Senate would reduce tax rates for many taxpayers, effective for the 2018 tax year. Additionally, businesses may see their tax bills cut, although the final form of the relief isn't yet clear.

The general plan of action to take advantage of lower tax rates next year would be to defer income into next year. Some possibilities include:

- If you are an employee who believes a bonus is coming your way before year end, consider asking your employer to delay payment of the bonus until next year.
- If you are thinking of converting a regular IRA to a Roth IRA, postpone your move until next year. That way you'll defer income from the conversion until next year and hopefully have it taxed at lower rates.
- If you run a business that renders services and operates on the cash basis, the income you earn isn't taxed until your clients or patients pay. So, if you hold off on billings until next year-or until so late in the year that no payment can be received this year-you will succeed in deferring income until next year.

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- If your business is on the accrual basis, deferral of income till next year is difficult but not impossible. For example, you might, with due regard to business considerations, be able to postpone completion of a job until 2018, or defer deliveries of merchandise until next year. Taking one or more of these steps would postpone your right to payment, and the income from the job or the merchandise, until next year. Keep in mind that the rules in this area are complex and may require a tax professional's input.
- The reduction or cancellation of debt generally results in taxable income to the debtor. So, if you are planning to make a deal with creditors involving debt reduction, consider postponing action until January to defer any debt cancellation income into 2018.

Disappearing Deductions and Larger Standard Deductions
Beginning next year, both the House-passed tax reform bill and the version before the Senate would repeal or reduce many popular tax deductions in exchange for a larger standard deduction. Here's what you can do about this right now:

The House-passed tax reform bill would eliminate the deduction for **nonbusiness state and local income or sales tax,** but would allow an up-to-$10,000 deduction for **real estate taxes** on your home. The bill before the Senate would ban all nonbusiness deductions for state and local income, sales tax, and real estate tax. If you are an employee who expects to owe state and local income taxes when you file your return next year, consider asking your employer to increase withholding on those taxes. That way, additional amounts of state and local taxes withheld before the end of the year will be deductible in 2017. Similarly, pay the last installment of estimated state and local taxes for 2017 by Dec. 31 rather than on the 2018 due date, or prepay real estate taxes on your home.

Neither the House-passed bill nor the bill before the Senate would repeal the itemized deduction for **charitable contributions.** But because most other itemized deductions would be eliminated in exchange for a larger standard deduction (e.g., in both bills, $24,000 for joint filers), charitable contributions after 2017 may not yield a tax benefit for many. If you think you will fall in this category, consider accelerating some charitable giving into 2017.

The House-passed bill, but not the one before the Senate, would eliminate the itemized deduction for **medical expenses.** If this deduction is indeed chopped in the final tax bill, and you are able to claim medical expenses as an itemized deduction this year, consider accelerating "discretionary" medical expenses into this year. For example, order and pay for new glasses, arrange to take care of needed dental work, or install a stair lift for a disabled person before the end of the year.

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Other Year-End Strategies
Here are some other "last minute" moves that could wind up saving tax dollars in the event tax reform is passed:

The exercise of an **incentive stock option (ISO)** can result in AMT complications. But both the Senate and House versions of the tax reform bill call for the AMT to be repealed next year. So, if you hold any ISOs, it may be wise to hold off exercising them until next year.

If you've got your eye on a plug-in **electric vehicle,** buying one before year-end could yield you an up-to-$7,500 discount in the form of a tax credit. The House-passed bill, but not the one before the Senate, would eliminate this credit after 2017.

If you're in the process of **selling your principal residence** and you wrap up the sale before year end, up to $250,000 of your profit ($500,000 for certain joint filers) will be tax-free if you owned and used the property as your main home for at least two of the five years before the sale. However, under the House-passed bill and the bill before the Senate, the $250,000/$500,000 tax free amounts would apply to post-2017 sales only if you own and use the property as your main home for five out of the previous eight years.

Under current rules, **alimony payments** generally are an above-the line deduction for the payor and included in the income of the payee. Under the House-passed tax bill but not the version before the Senate, alimony payments would not be deductible by the payor or includible in the income of the payee, generally effective for any divorce decree or separation agreement executed after 2017. So, if you're in the middle of a divorce or separation agreement, and you'll wind up on the paying end, it would be worth your while to wrap things up before year end if the House-passed bill carries the day. On the other hand, if you'll wind up on the receiving end, it would be worth your while to wrap things up next year.

Both the House-passed bill and the version before the Senate would repeal the deduction for **moving expenses** after 2017 (except for certain members of the Armed Forces), so if you're about to embark on a job-related move, try to incur your deductible moving expenses before year-end.

Please keep in mind that we've described only some of the year-end moves that should be considered in light of the tax reform package currently before Congress-which, it bears emphasizing, may or may not actually become law.

If you haven't already, please contact us as soon as possible to confirm your **2017 Year-End Tax Planning Meeting** to decide which tax-saving moves will be right for you and/or your business. Feel free to call us at any time with any questions you may have.

Call us at 816.741.7882 or connect with us online at: www.kccpa.com/contact_us