CREATIVE PLANNING

# Year End Income Tax Planning

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We are approaching the end of 2017 and this is a great time to review your tax planning, particularly this year with anticipated tax law changes coming soon. The House of Representatives and Senate have each passed their own versions of the Tax Cuts and Jobs Act. There are several differences between the bills so the exact details of the final bill, or ultimately if it will become law, are still unknown. But we can begin to see areas where they agree and look at strategies to implement before the end of the year in anticipation of the changes.

Although each taxpayer's situation will vary, in general the changes will cause rates to be lower next year while repealing some currently allowed deductions. This means you should review your deductions to see which you can accelerate into 2017, and review your income to see if anything can be deferred to 2018.

Tax Rate Changes:

- The tax rates and the income brackets are still being finalized. Under current law the highest tax rate for individuals is 39.6% for income over $470,700 ($418,400 for single filers). The Senate bill has seven ordinary income tax rates, with the highest at 38.5% for income over $1,000,000 ($500,000 for single filers). The House bill has four rates, with the highest remaining at 39.6% but beginning with income over $1,000,000.
- Capital gains rates remain unchanged at 0%, 15% and 20% under both plans. In addition, the 3.8% net investment income tax is also retained.
- Alternative minimum tax is one of the large differences to reconcile between the two bills. The House repeals AMT entirely and the Senate maintains AMT but expands the exemption.
- Income from flow through entities including S-Corporations, LLC's and partnerships may receive preferential tax rates under the new law. The applicable rates and income limitations for those rates are still being reconciled. The rates would be effective January 1, 2018.
- Currently the highest tax rate for C Corporations is 35%, under the new law the top rate would be 20%. However, AMT may still apply and cause the effective rate to be higher and the effective date of this rate change is still being debated between 2018 and 2019.

Deductions:

- Real estate & personal property taxes are limited to $10,000 per year in both versions of the bill. If your taxes exceed this amount consider paying amounts due in 2018 before December 31, 2017. However, if you anticipate being subject to Alternative Minimum Tax (AMT) in 2017, this will not benefit you.
- State and local income tax deductions are repealed in both versions of the bill as well. Plan to pay your entire anticipated amount due to any states or local governments on your 2017 tax returns

before year end. Again, if you anticipate being subject to AMT this year, the prepayment will not provide any benefit.

- Consider increasing charitable donations this year or fulfilling a pledge early. With tax rates lowering in 2018, the deduction may be worth more to you this year than in future years. Donating appreciated securities can be especially beneficial by providing an income tax deduction as well as avoiding the capital gains taxes due if the securities were instead sold.

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- Medical expense deductions are eliminated in the House version of the bill, but maintained in the Senate version. If you anticipate having medical expenses in excess of 10% of your income, consider prepaying expenses in December in order to protect the deduction.

- Maximize your pre-tax deferrals including those to 401(k) and 403(b) plans, IRA's and HSA accounts.

In addition to the specific items above, both plans expand the standard deduction to $24,000 which means far fewer taxpayers will itemize their deductions. For anyone who may no longer itemize, any deductions that you can accelerate into 2017 will ensure you receive the tax benefits of those expenses.

If your tax rate will be lower next year after the tax law changes, any income that you have the ability to defer into 2018 will be beneficial. Employees should review bonus payments, stock options, and any other income over which they have control of the timing. Business owners who operate on a cash basis should look at invoicing clients later in the month and prepaying expenses before year end.

Although a change in tax law for 2018 is very likely, the details are still uncertain. Each individual's tax situation is unique and the details will make a big impact. We will continue to closely monitor the process and update you as any changes become finalized.