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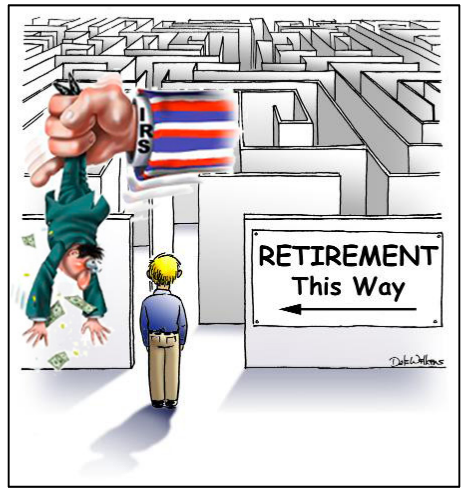
Last minute actions to save on your taxes

"The difference between death and taxes is that death doesn't get worse every time Congress meets."
– Will Rogers, American humorist, columnist, performer. (1879 - 1935)

Navigating the Retirement Maze



In it's usual infinite wisdom, Congress is on the verge of passing a major tax bill while giving taxpayers all of ten days to make changes in 2017. Before the New Year rings in, let me provide some tips on how you might be able to improve your tax situation. While I am not a CPA, I annually review my client's taxes for actions that they (and I) can take to reduce their tax bill, as any responsible financial planner should do. So, unless you are one of the obvious winners from this pending tax legislation – millionaires, private equity managers, the President and family, the liquor industry, and major corporations – please review the following and get ready to make some changes to your 2017 tax planning while you still can.

Changes that most likely affect you

Given the many last-minute changes to this tax bill, analysts have had little time to assimilate what is contained in its 505 pages. (So much for tax simplification.) As the Republican House and Senate worked to reconcile differences between the two versions, as well as toss in concessions to sway the few holdouts, some of the more onerous provisions were dropped to make this an acceptable tax bill for most Americans.

Here are some key changes to your taxes in 2018 – assuming the bill passes later this week – of which you should be aware. The kicker here, though, is that many of these changes will disappear after 2025:

- Still seven tax brackets, though with changes to some percentages and generally higher thresholds.
- The standard deductions are doubled.
- Personal exemptions disappear. In 2017 they were $4,050 per family member. Child tax credit increased to $2,000 per child.
- A cap on deductions for state and local (including property) taxes of $10,000 per year.
- No more deduction for home equity loans (HELOCs).
- No more requirement to either purchase health care insurance or pay a penalty. (One consequence is that insurance companies are assuming that young, healthy people will forego policies, and so the rates on existing policies are skyrocketing for 2018. Mine just went up 72%.)
- The Alternative Minimum Tax remains, but with higher thresholds and will apply to fewer people.
- 529 Plans can now be used for private secondary schools as well as college expenses.
- Miscellaneous deductions go away.
- "Kiddie tax" rates are now the same as those for trusts rather than their parents.
- No changes to qualified retirement plans except that it will no longer be possible to recharacterize (i.e., undo) a Roth conversion.
- For divorce and separation agreements executed in 2019 and later, alimony will no longer be taxable income to the recipient, but will not be deductible by the payer.

What did not change:

- Mortgage interest deduction.
- Capital gains deductions when selling a home, and the "2 years out of 5" rule.
- 401(k) plans.
- Medicare 3.8 percent surtax on investment income for higher income families and individuals.
- Student loan interest is still deductible.
- The adoption assistance deduction and dependent care accounts.
- Tuition waivers and employer-paid tuition are still not taxed.

Actions to reduce your 2017 tax bill

Although the days remaining in 2017 are few, there are still actions that you can take to reduce your tax bill:

- Use a Donor Advised Fund to make multiple years' worth of charitable deductions. Brokerage firms such as Fidelity and Schwab offer charitable funds to which you can donate and then pay out to your charities over multiple years. Better yet, donate appreciate securities and avoid paying the capital gains tax.
- Defer income into 2018. Pull deductions, where possible, into 2017. Pay attention to the AMT, though.
- Prepay your 2017 property taxes due next quarter. Ditto for mortgage payments due in January.
- If your children have assets in a UGMA or UTMA account that have gains and need to be sold, do it this year.

Moves to consider in 2018

Even though you're not a large corporation or a billionaire, there are still some elements of the tax bill that you might be able to take advantage of going forward.

- If you have a HELOC, do the math to see whether it makes sense to combine it with your existing mortgage and do a mortgage refinance. If you are 62 or older and have considerable equity in your home, consider a reverse mortgage to eliminate both HELOC and mortgage payments.
- If you have major medical expenses coming up in the next several years, plan to spend them during 2018 when the threshold for deductibility is reduced to 7.5% of AGI for one year.
- Set up and fund a 529 Plan early for qualified secondary school expenses, but don't neglect what is needed for college expenses.
- If you are a contractor or self-employed, talk to your accountant to see whether your particular business is eligible, and it makes financial sense, to convert to a pass-through entity such as an LLC or S Corporation to qualify for a lower tax rate.

As financial planners and tax analysts have more time to assimilate the changes in the tax bill, additional strategies may emerge for reducing your tax bills going forward. In the meantime, don't procrastinate on moves that can help you this year.

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