Churchill Management Group

Financial Planning Newsletter

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Tax Reform Year-End Considerations*

Tax Reform: Year-End Tax Planning Considerations*

The tax reform law being presented by Congress is the biggest change to the tax code in the last 30 years.

Once approved by the President, most of the changes will not go into effect until next year, however, there may be an opportunity before year-end to reduce the impact of the new 2018 provisions as it relates to itemized deductions.

See below for some 2017 year-end strategies you may consider completing before year-end:

Standard Deductions and Personal Exemption Changes in 2018:

Below are some of the changes with the Standard Deduction for 2018:

- Increases from $6,350 in 2017 to $12,000 in 2018 for single tax filers.
- Increases from $12,700 in 2017 to $24,000 in 2018 for married filing jointly tax filers.
- Increases from $9,350 in 2017 to $18,000 in 2018 for head of household tax filers.

Personal Exemptions are eliminated in 2018.

Due to the Standard Deduction increasing in 2018, you may want to pay some Itemized Deductions by year-end 2017.

The rationale behind this is -with the higher standard deduction in 2018- it is possible many individual tax filers will be advised to claim the standard deduction over itemized deductions because itemized deductions may not exceed the standard deduction. Therefore, a tax filer will not be able to itemize their deductions because a tax return may only have one deduction type selected: either standard or itemized.

Some Itemized Deduction Changes for 2018:

State & Local Income Taxes and Property Taxes

Starting in 2018, individual tax filers will only be able to claim an itemized deduction of up to $10,000 ($5,000 for a married taxpayer filing a separate return) for a total of state, local & property taxes.

So long as you are not subject to Alternative Minimum Tax (AMT), you may consider paying the last installment of estimated state and local property taxes for 2017 no later than Dec. 31, 2017.

Keep in mind, Congress may not allow pre-payments for state income taxes but it appears this does not apply for property taxes. Therefore, a pre-payment of property taxes on or before Dec. 31, 2017, for a 2018 property tax installment may be acceptable.

Charitable Contributions

Charitable contribution deductions will not be reduced.

Keep in mind, most other itemized deductions will be eliminated in exchange for a larger 2018 standard deduction. Depending on the amount, this may mean charitable contributions in 2018 and thereafter may not yield a tax deduction benefit if itemized deductions do not exceed the larger standard deduction.

Excess of AGI Itemized Deductions: Medical, Misc. & Investment Expenses

The new law temporarily boosts itemized medical expense deductions.

For 2017 and 2018 qualified deductible medical expenses can be claimed as itemized deductions so long as they exceed a floor equal and/or above 7.5% of your adjusted gross income (AGI).

This was lowered from 10% of AGI (unless you were 65 or older) prior to this new tax reform.

Same consideration applies as stated with charitable contributions and other itemized deductions. With the higher standard deduction in 2018, it is possible many individual tax filers will be advised to claim the standard deduction unless itemized deductions exceed the standard deduction.

Tax Prep, Software fees, and Investment Management Fees, in most cases, will not be deductible in 2018.

*Of course, always consult with a CPA for final advice and the application of the tax reform changes. Also, note, this does not summarize the entire tax reform bill.

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