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Dear Client:

2017 is coming to a close with sweeping new tax legislation on the horizon. While the changes don't take effect until 2018 (with one minor exception), I want to alert you to some steps you might take before year-end to preserve the best possible tax results.

As you explore these ideas, mostly you will find they contain a common and time-tested theme: where possible, defer income and accelerate the payment of deductible expenses. The reason for relying on this oldest of strategies is because ordinary income tax rates should be lower next year and many expenses will either no longer be deductible or will be less valuable in light of higher standard deductions in 2018.

1. **Delay year-end bonuses or other compensation.** Many employees cannot control the timing of compensation, but it never hurts to ask. Where shifting income from 2017 to 2018 is possible, lower marginal tax rates should apply in 2018.
2. **Maximize retirement deferrals.** Be sure to fully fund your 401(k) and/or IRA to further reduce gross income for 2017. We'll discuss during tax season fully funding 2017 SEPs and other retirement accounts that can be funded up to April 15.
3. **Business owners and consultants should delay billing.** It isn't proper to simply delay depositing checks received before year-end, but you generally won't be paid for amounts you haven't billed. Shift that mid- to late-December billing out until January 1.
4. **Prepay state income tax.** This deduction will be eliminated beginning in 2018, so pay the fourth quarter estimate that is dated January 2018 by December 31, 2017. This strategy, however, requires that you know your status regarding alternative minimum tax (AMT). If you will be subject to AMT in 2017, it is likely that prepaying your state taxes will not reduce your 2017 taxes. In that case, with no benefit in either year, it makes better financial sense to make the payment later.
5. **Prepay property taxes.** The deduction for property taxes is likely to be limited to $10,000 beginning in 2018. To the extent that you already have an assessment that isn't due until after the first of next year, pay it by December 31. For taxpayers with high property tax bills and other large deductions such as mortgage interest and contributions, accelerating the 2018 property tax payment into 2017 may save a deduction due to disappear next year. Mid-range taxpayers may need a projection to see if this makes sense. And here again, the strategy won't work for those in AMT in 2017.

   Example. Sharon and Vern owe $12,000 in property taxes annually in two installments. They also pay $15,000 mortgage interest and donate $3,000 to charity. If they prepay in 2017

$6,000 property tax due in 2018, their itemized deductions will be $36,000 ($12,000 + $6,000 + $15,000 + $3,000). If they do this for 2018, they will only have $24,000 of deductions, ($6,000 + $15,000 + $3,000) the amount of the new 2018 standard deduction. If they don't prepay, they will lose the benefit of $2,000 because they can only deduct a maximum of $10,000 property tax in 2018. With prepay, total two-year deductions are $60,000. Without prepay, total two-year deductions are $58,000.

6. **Bunching strategies.** With the standard deductions doubling in 2018, lower itemizers will need to begin to incorporate strategies to bunch deductible expenses every other year to "pop up" over the standard deduction and preserve tax benefits. In this case, you might warn your favorite charities as you contribute this year-end that your next contribution might not occur until January 2019. In that way, you can make double contributions at the beginning and end of 2019 to achieve deductions above the standard deduction that year.
7. **Make donations directly from IRA.** If you are 70½ or older but your donations do not bring you over the new higher standard deduction, make those donations directly from your IRA as a custodial transfer.
8. **Delay business asset acquisition.** First-year bonus depreciation for brand new assets will be 100% in 2018 (up from 50% in 2017). You may want to delay capital expenditures to take advantage of the more complete write-off on the acquisition.
9. **Complete trade-ins of business equipment, machinery, and autos before year-end.** Section 1031 like-kind exchanges will only be available on real property beginning in 2018. If you have other business assets with low or no basis that you were considering trading in on the purchase of new, complete the transaction and place the new assets in service before year-end if possible.
10. **Complete large capital gains sales and prepay the state tax.** You may want to accelerate this type of income into 2017 as long as it is accompanied by the payment of state tax. With capital gains rates remaining virtually the same under the new law, the net after-tax result can be better this year.

    Example. Karen is holding a significant amount of highly appreciated stock with very low cost basis. She can sell for $500,000 long-term capital gains. When she sells, she will owe $50,000 in state income tax. She also has $100,000 other ordinary income and $20,000 itemized deductions. If Karen sells and pays the state tax in 2017 instead of 2018, she will save approximately $2,000 in federal taxes.

Individual situations are unique, and there are no one-size-fits-all tax planning strategies. If you would like to discuss these or other ideas that apply to your particular circumstances, please feel free to contact me.