Year End Tax Planning Tips for 2017

As a normal tax planning rule you look to defer income to years when your tax rate will be lower and accelerate tax deductions to years when your tax rate is higher. With the passage of the House and Senate bills of tax reform bills there is much uncertainty about tax planning but here are some planning ideas.

1. Defer Income

For some people, tax rates in 2018 will be lower than in 2017 so if there is an opportunity to defer your income you should find a way to do this. This does not work by not just banking a check you receive you would need to ask your employer to defer paying you your bonus check until January 1 (for example). Conversely some people will be in a higher tax rate in 2018 then they should try accelerate their income into 2018 (if possible).

(I have provided a table that shows the possible tax rates for 2018 and red/green impact at different income levels.)

2. Charitable contributions

The standard deduction is essentially doubling so fewer people will be itemizing their deductions , so if your itemized deductions for 2018 will be less than $24,000 (if MFJ) or $12,000 (if single) then 2017 will essentially be the last year there will be a tax benefit from making charitable contributions. Although I suspect most people do not make charitable contributions for the income tax deduction.

In order to claim an income tax deduction for donations/charitable contributions you need to meet some requirements:

a) It must be made to a registered charity
b) If the donation exceeds $249, you need records to show the amount and what was contributed such as a bank record, credit card statement, receipt from the organization.
c) If the donation(s) for non-cash items exceed $499 then you need to complete IRS Form 8283 with your tax return
d) If the item exceeds $5,000 in value you will generally need an appraisal

Link to IRS website with additional information: https://www.irs.gov/newsroom/eight-tips-for-deducting-charitable-contributions

3. State and local taxes

In 2018 there will be no income tax deduction for state income taxes so if you will be itemizing your income tax deductions in 2017 one idea is to pay additional amounts for your state income taxes in 2017, rather than wait to pay your additional income taxes in 2018. For example, if you may owe income tax for 2017 you would normally have until April 15, 2018 to pay any amount due but you will not get an income tax deduction for those payments in 2018, so to the extent possible pay them in 2018. One way to achieve this would be to vary the amount you ask your employer to withhold from your pay check for state taxes.

4. Recognizing capital losses

The stock market has performed very well this year so if you have some capital gains you may want to see if you have any losses in some stocks and sell these before the end of the year so you can offset your capital gains with capital losses. Although note, you cannot buy replacement stock for 30 days before the date of the sale or 30 days after the sale, essentially a 61 day period else the loss cannot be recognized (the wash sale rule).

5. Alimony payments

If you currently pay alimony and will have an on-going liability in 2018, you may want to consider prepaying some of the payments in 2017 so you can continue to obtain the income tax deduction as under the House version of the tax reform bill there will no longer be an income tax deduction for alimony. The Senate version of the bill has retained the deduction for alimony. This is a deduction that does not require you itemize your deductions.

6. Moving expenses

If you are relocating for work then ensure you pay those expenses in 2017 so you can obtain the income tax deduction. If you wait until 2018 to make the payments then you will not be entitled to an income tax deduction under either version of the tax reform bills. This is a deduction that does not require you to itemize your deductions.

7. Property taxes

If your property taxes in a year exceed $10,000, then you may want to prepay your 2018 property taxes in 2017 to claim the income tax deduction as in 2018 you will be limited to $10,000 for property taxes under either version of the tax reform bills.

Property taxes are an itemized deduction, so even if your property tax bill is less than $10,000 each year if you are unlikely to itemize your deductions in 2018 due to the doubling of the standard deduction you may want to consider prepaying your 2018 property taxes.

8. Medical expenses

If you have some medical expenses, then consider paying them before the end of the year. These are itemized deductions for income tax purposes so if you will not be eligible to itemize your deductions in 2018, then consider making the payments in 2017 to obtain the income tax deduction. In addition under the House version of the tax reform legislation there will be no ability to claim an itemized deduction for medical expenses, although the Senate version continues to allow the deduction for medical expenses.

9. Unreimbursed employee expenses

Often your employer will not reimburse you for some of your expenses you incur on their behalf but you if you itemize your deductions then you are able to claim them as an expense. 2017 will be the last year you can take an income tax deduction for those expenses as both versions of the tax reform bills so you may want to approach your employer about reimbursing those expenses in 2018 and going forward.

I have attached some examples of expenses that may qualify.

10. Mortgage interest

Mortgage interest is an itemized deduction so if the combination of all your itemized deductions in 2018 will be less than $24,000 (MFJ) or $12,000 (single) you will no longer obtain an income tax deduction.

Currently the mortgage interest deduction includes a deduction for interest on equity lines of credit but in 2018 this will no longer be permitted under either the House or Senate version of the tax reform bills. So you may want to ensure you understand how this will impact your tax liability for 2018.

In addition, San Diego has a number of people who own second homes and it is possible to claim an income tax deduction for the interest on the mortgage for the second home. Under the House version of tax reform there will no longer be a tax deduction for the mortgage interest on the second home.

Also, currently the maximum mortgage amount is $1 million (which in San Diego could be the amount needed to buy a home), however under the House version they will be decreasing the maximum mortgage amount to $500,000.

11. Saving for Retirement

As most people want to save current taxes, the best way to achieve this is in retirement accounts as the growth is tax free. So even though you have until April 15 to make the contributions to your retirement accounts the earlier you make the contribution for 2017 the earlier you save current taxes on your investments.

I personally prefer Roth IRAs as you can make a contribution of $5,500 ($6,500 if you will be 50 at December 31) and provided your income is less than $186,000 (MFJ) or $118,000 (Single/HOH) then all the earnings grow tax free and there is **no tax** to be paid when you take distributions (provided you meet the age and holding requirements).

Traditional IRAs have similar contribution amounts, and you can obtain an income tax deduction which depends upon your income, whether you participate in your employer's retirement plan and the amount of your income. However, you can make contributions for which you do not obtain an income tax deduction. Irrespective of whether you obtain the income tax deduction the earnings grow tax free but you will need to pay tax on the earnings when you distribute them from your IRA.

However, any savings to a retirement account is always a smart tax move!