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Dear Client:

2017 is coming to a close with sweeping new tax legislation. While most changes don't take effect until 2018, we want to alert you to some steps you might take before year-end to preserve the best possible tax results. There may be other tax planning ideas for you, each situation is different.

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 will generally 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 15th.
3. **Prepay state income tax and property taxes.** These deductions are limited beginning in 2018. For state income tax, pay the fourth quarter estimate that is dated January 2018 by December 31, 2017. For property tax, 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, 2017. For taxpayers with high property tax bills and other large deductions such as mortgage interest and contributions, accelerating the 2018 state income tax and property tax payment into 2017 may save a deduction due to disappear next year. If you are subject to alternative minimum tax (AMT) in 2017 this strategy may or may not be beneficial.

> *Tax deduction cuts.* For tax years 2018 through 2025, TCJA limits deductions for taxes paid by individual taxpayers in the following ways:
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> . . . It limits the aggregate deduction for state and local real property taxes; state and local personal property taxes; state and local, and foreign, income, war profits, and excess profits taxes; and general sales taxes (if elected) for any tax year to $10,000 ($5,000 for married filing separately). *Important exception:* The $10,000 limit doesn't apply to: (i) foreign income, war profits, excess profits taxes; (ii) state and local, and foreign, real property taxes; and (iii) state and local personal property taxes if those taxes are paid or accrued in carrying on a trade or business or in an activity engaged in for the production of income. So property taxes claimed for business, farming and rental properties are not affected.
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> . . . It completely eliminates the deduction for foreign real property taxes unless they are paid or accrued in carrying on a trade or business or in an activity engaged in for profit.

4. **Make donations directly from IRA.** If you are 70½ or older but your donations do not bring you over the new higher standard deduction beginning in 2018, make those donations directly from your IRA as a custodial transfer.

Individual situations are unique, and there are no one-size-fits-all tax planning strategies. This only takes into account changes to the federal income tax and changes if any to state income taxes are unknown at this time. If you would like to discuss these or other ideas that apply to your particular circumstances, please feel free to contact us.

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