ROBERT C. ALARIO CPA PC

TRADITIONAL VALUES. . . CONTEMPORARY SERVICE

TAX NEWSLETTER

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We had been hoping to send out a letter once the tax reform bill is passed (which we will still do). Although enactment of final tax reform legislation is not yet a sure thing, the odds have increased sufficiently over the past several weeks to make some preparations for year-end planning advisable.

Most people will benefit by using this strategy: Defer income and accelerate deductions. This game plan, which normally pays off taxwise, now has even more importance.

You'll gain by deferring income to 2018 in anticipation of bracket changes. Ponder delaying a dividend from a closely held firm or postponing a year-end bonus. IRA owners who turned 70½ this year may want to postpone taking their 2017 payout until April 1, 2018. Doing so delays the tax bill and could potentially save you money.

With many deductions in peril, use them this year while you still can. Filers who take itemized deductions have flexibility in shifting write-offs.

State and local income taxes. This break is currently on the chopping block. Mailing your estimate due in Jan. by year-end lets you claim the deduction in 2017.

Residential real property taxes. They're in flux, but it looks as if any final bill would cap this break at $10,000 or so. Prepay taxes on your home this year if you can.

Interest. If you make the Jan. 2018 mortgage payment on your residence before the end of the year, you are able to deduct the interest portion in 2017.

Charitable contributions. This write-off is safe, but it may not be as valuable next year if standard deductions are raised. You can accelerate donations into 2017, but you must charge them or mail the checks by Dec. 31 to ensure a 2017 write-off.

Medical expenses. The House wants it gone, while the Senate would keep it. If your 2017 medicals have exceeded the 10%-of-adjusted-gross-income threshold or are close to it, think about getting and paying for elective procedures by Dec. 31.

Moving costs. The House and Senate would both scrap this deduction. So if you're contemplating relocating for a job, you may want to do so before year-end.

Your tax planning may be affected by some special situations this year. Watch out for the bite of the cutback in itemizations for upper-incomers. If you're in this group of taxpayers, there's potentially good news on the horizon: The House and Senate bills would put an end to this hidden tax hike after 2017.

The alternative minimum tax can throw a monkey wrench into your plans because deductions for many items, such as some accelerated depreciation write-offs and state and local taxes, aren't allowed in figuring the AMT. So prepaying a realty bill due in early 2018 or a Jan. 2018 state income tax estimate won't work for the AMT.

Keep in mind that Congress wants to repeal or limit the AMT. So taxpayers who are subject to it need to consider whether it would help them taxwise to delay to 2018 breaks that would otherwise be nixed in 2017 by the AMT rules.

Now turn to year-end planning advice pertaining to your investments. There are lots of tax-saving opportunities as well as pitfalls to avoid. Note that the Senate and House tax bills would keep the current rates for dividends and long-term capital gains…0%, 15% and 20%...and the 3.8% Obamacare surtax.

If you have some losers you want to dump, consider selling them. Capital losses can offset your capital gains plus up to $3,000 of other income. Any excess losses can be carried forward indefinitely to help offset future capital gains. If you have capital loss carryforwards from earlier years, cull your portfolio for gains. That's because your net gains…up to the carryforward amount…won't be taxed.

See if you qualify for the 0% rate on long-term capital gains and dividends. If your taxable income other than gains or dividends is in the 10% or 15% tax bracket, then dividends and profits on sales of assets owned for more than a year are tax-free until they push you into the 25% bracket. For 2017, this bracket starts at $37,950 for single filers, $50,800 for heads of household and $75,900 for married couples.

But understand the potential downsides. Zero-percent gains and dividends are included in AGI, which can cause a higher portion of your Social Security benefits to be taxable and can squeeze some itemized deductions such as charitable donations. Also, your state income tax bill may rise, as most states tax gains as ordinary income.

Take steps to limit the sting of the 3.8% surtax on net investment income... taxable interest, dividends, gains, rents, annuities, royalties, passive income and such. Singles with modified AGIs over $200,000 and couples over $250,000 could owe the tax.

Among the ways to ease the pain of the tax: Purchase municipal bonds. Tax-free interest is exempt from the 3.8% levy and doesn't affect the owner's AGI. If selling property, use an installment sale to spread out a large gain. And, if feasible, do a like-kind exchange of investment realty instead of a taxable sale to defer the gain.

Donate appreciated stock or mutual fund shares to a tax-exempt charity. Provided you've owned the property for more than a year, you can deduct its full value. And neither you nor the charitable organization has to pay tax on the appreciation.

However, beware of donating property that has fallen in value. If you do so, the capital loss is wasted. You're better off selling the loser, claiming the capital loss on your tax return, and then contributing the proceeds to the charity of your choice.

Here's another tip if you're feeling charitable and you own a traditional IRA. People age 70½ and older can transfer up to $100,000 yearly from their IRAs directly to charity. The transfers count as part of your required minimum distribution. But unlike other IRA payouts, these direct donations aren't added to taxable income, so they don't reduce the value of your itemized deductions or personal exemptions. Of course, if you do this, you aren't able to double-dip by deducting the donation.

Act soon if you did a Roth IRA conversion this year and want to undo it. Under present law, you have until Oct. 15 of the year following the conversion to transfer the funds back to a traditional IRA. This is called a recharacterization.

The Senate and House tax bills would bar recharacterizations after 2017. If the proposal is enacted, you must act by Dec. 31, 2017, to undo a 2017 conversion. If your investment has gone south or you'll be in a lower tax bracket next year, contact your broker for the steps to unwind the transaction before it's too late.

As always, if you have any questions please contact Bob, Karen or anyone at "Team Alario".

Happy holidays and wishing you a healthy and prosperous new year.

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