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Tax Reform Summary

Congress has enacted the biggest tax reform law in thirty years, one that will make fundamental changes in the way you, your family and your business calculate your federal income tax bill, and the amount of federal tax you will pay. This letter is to give you a summary of the changes and an idea of what can be done before year end. There is a lot to discuss and we have not included everything, but have tried to include what may apply to our clients. We have segregated this letter between individual changes, business changes and year end planning to help you target what may be important to you.

Individual Changes

Here's a look at some of the more important elements of the new law that have an impact on individuals. Unless otherwise noted, the changes are effective for tax years beginning in 2018 through 2025.

- Tax rates. The new law imposes a new tax rate structure with seven tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, and 37% (see below). The top rate was reduced from 39.6% to 37% and applies to taxable income above $500,000 for single taxpayers, and $600,000 for married couples filing jointly. The rates applicable to net capital gains and qualified dividends were not changed. The "kiddie tax" rules were simplified. The net unearned income of a child subject to the rules will be taxed at the capital gain and ordinary income rates that apply to trusts and estates. Thus, the child's tax is unaffected by the parent's tax situation or the unearned income of any siblings.

- Standard deduction. The new law increases the standard deduction to $24,000 for joint filers, $18,000 for heads of household, and $12,000 for singles and married taxpayers filing separately. Given these increases, many taxpayers will no longer be itemizing deductions. These figures will be indexed for inflation after 2018.

- Exemptions. The new law suspends the deduction for personal exemptions. Thus, starting in 2018, taxpayers can no longer claim personal or dependency exemptions. The rules for withholding income tax on wages will be adjusted to reflect this change, but IRS was given the discretion to leave the withholding unchanged for 2018.

- New deduction for "qualified business income." Starting in 2018, taxpayers are allowed a deduction equal to 20 percent of "qualified business income," otherwise known as "pass-through" income, for example, income from partnerships, S corporations, LLCs, and sole proprietorships. The income must be from a trade or business within the U.S. Investment income does not qualify, nor do amounts received from an S corporation as reasonable compensation or from a partnership as a guaranteed payment for services provided to the trade or business. The deduction is not used in computing adjusted gross income, just taxable income. For taxpayers with taxable income above $157,500 ($315,000 for joint filers), (1) a limitation based on W-2 wages paid by the business and depreciable tangible property used in the business is phased in, and (2) income from the following trades or businesses is phased out of qualified business income: health, law, consulting, athletics, financial or brokerage services, or where the principal asset is the reputation or skill of one or more employees or owners. We will discuss this further in this letter.

- Child and family tax credit. The new law increases the credit for qualifying children (i.e., children under 17) to $2,000 from $1,000, and increases to $1,400 the refundable portion of the credit. It also introduces a new (nonrefundable) $500 credit for a taxpayer's dependents who are not qualifying children. The adjusted gross income level at which the credits begin to be phased out has been increased to $200,000 ($400,000 for joint filers).

- State and local taxes. The itemized deduction for state and local income and property taxes is limited to a total of $10,000 starting in 2018.

- Mortgage interest. Under the new law, mortgage interest on loans used to acquire a principal residence and a second home is only deductible on debt up to $750,000 (down from $1 million), starting with loans taken out in 2018. And there is no longer any deduction for interest on home equity loans, regardless of when the debt was incurred.

- Miscellaneous itemized deductions. There is no longer a deduction for miscellaneous itemized deductions which were formerly deductible to the extent they exceeded 2 percent of adjusted gross income. This category included items such as tax preparation costs, investment expenses, union dues, and unreimbursed employee expenses.

- Medical expenses. Under the new law, for 2017 and 2018, medical expenses are deductible to the extent they exceed 7.5 percent of adjusted gross income for all taxpayers. Previously, the AGI "floor" was 10% for most taxpayers.

- Casualty and theft losses. The itemized deduction for casualty and theft losses has been suspended except for losses incurred in a federally declared disaster.

- Overall limitation on itemized deductions. The new law suspends the overall limitation on itemized deductions that formerly applied to taxpayers whose adjusted gross income exceeded specified thresholds. The itemized deductions of such taxpayers were reduced by 3% of the amount by which AGI exceeded the applicable threshold, but the reduction could not exceed 80% of the total itemized deductions, and certain items were exempt from the limitation.

- Moving expenses. The deduction for job-related moving expenses has been eliminated, except for certain military personnel. The exclusion for moving expense reimbursements has also been suspended.

- Alimony. For post-2018 divorce decrees and separation agreements, alimony will not be deductible by the paying spouse and will not be taxable to the receiving spouse.

- Health care "individual mandate." Starting in 2019, there is no longer a penalty for individuals who fail to obtain minimum essential health coverage.

- Estate and gift tax exemption. Effective for decedents dying, and gifts made, in 2018, the estate and gift tax exemption has been increased to roughly $11.2 million ($22.4 million for married couples).

- Alternative minimum tax (AMT) exemption. The AMT has been retained for individuals by the new law, but the exemption has been increased to $109,400 for joint filers ($54,700 for married taxpayers filing separately), and $70,300 for unmarried taxpayers. The exemption is phased out for taxpayers with alternative minimum taxable income over $1 million for joint filers, and over $500,000 for all others.

Rate changes for individuals. Individuals are subject to income tax on "ordinary income," such as compensation, and most retirement and interest income, at increasing rates that apply to different ranges of income depending on their filing status (single; married filing jointly; including surviving spouse; married filing separately; and head of household). Currently those rates are 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%.

New rates. Beginning with the 2018 tax year and continuing through 2025, there will still be seven tax brackets for individuals, but their percentage rates will change to: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The following tables show the dollar ranges of these new brackets.

Single Individuals' 2018 Income Tax Rates

If taxable income is:	**The tax is:**
Not over $9,525	10% of taxable income
Over $9,525 but not over $38,700	$952.50 plus 12% of the excess over $9,525
Over $38,700 but not over $82,500	$4,453.50 plus 22% of the excess over $38,700
Over $82,500 but not over $157,500	$14,089.50 plus 24% of the excess over $82,500
Over $157,500 but not over $200,000	$32,089.50 plus 32% of the excess over $157,500
Over $200,000 but not over $500,000	$45,689.50 plus 35% of the excess over $200,000
Over $500,000	$150,689.50 plus 37% of the excess over $500,000

Married Filing Jointly and Surviving Spouse 2018 Income Tax Rates

If taxable income is:	**The tax is:**
Not over $19,050	10% of taxable income
Over $19,050 but not over $77,400	$1,905 plus 12% of the excess over $19,050
Over $77,400 but not over $165,000	$8,907 plus 22% of the excess over $77,400
Over $165,000 but not over $315,000	$28,179 plus 24% of the excess over $165,000
Over $315,000 but not over $400,000	$64,179 plus 32% of the excess over $315,000
Over $400,000 but not over $600,000	$91,379 plus 35% of the excess over $400,000
Over $600,000	$161,379 plus 37% of the excess over $600,000

Married Filing Separate 2018 Income Tax Rates

If taxable income is:	**The tax is:**
Not over $9,525	10% of taxable income
Over $9,525 but not over $38,700	$952.50 plus 12% of the excess over $9,525
Over $38,700 but not over $82,500	$4,453.50 plus 22% of the excess over $38,700
Over $82,500 but not over $157,500	$14,089.50 plus 24% of the excess over $82,500
Over $157,500 but not over $200,000	$32,089.50 plus 32% of the excess over $157,500
Over $200,000 but not over $300,000	$45,689.50 plus 35% of the excess over $200,000
Over $300,000	$80,689.50 plus 37% of the excess over $300,000

Head of Household 2018 Income Tax Rates

If taxable income is:	The tax is:
Not over $13,600	10% of taxable income
Over $13,600 but not over $51,800	$1,360 plus 12% of the excess over $13,600
Over $51,800 but not over $82,500	$5,944 plus 22% of the excess over $51,800
Over $82,500 but not over $157,500	$12,698 plus 24% of the excess over $82,500
Over $157,500 but not over $200,000	$30,698 plus 32% of the excess over $157,500
Over $200,000 but not over $500,000	$44,298 plus 35% of the excess over $200,000
Over $500,000	$149,298 plus 37% of the excess over $500,000

The bottom line – while these changes will lower rates at many income levels, determining the overall impact on any particular individual or family will depend on a variety of other changes made by the Tax Cuts and Jobs Act ("TCJA"), including increases in the standard deduction, loss of personal and dependency exemptions, a dollar limit on itemized deductions for state and local taxes, and changes to the child tax credit and the taxation of a child's unearned income, known as the Kiddie Tax.

Capital gain rates. Three tax brackets currently apply to net capital gains, including certain kinds of dividends, of individuals and other noncorporate taxpayers: 0% for net capital gain that would be taxed at the 10% or 15% rate if it were ordinary income; 15% for gain that would be taxed above 15% and below 39.6% if it were ordinary income, or 20% for gain that would be taxed at the 39.6% ordinary income rate.

The TCJA, generally, keeps the existing rates and breakpoints on net capital gains and qualified dividends. For 2018, the 15% breakpoint is: $77,200 for joint returns and surviving spouses (half this amount for married taxpayers filing separately), $51,700 for heads of household, and $38,600 for other unmarried individuals. The 20% breakpoint is $479,000 for joint returns and surviving spouses (half this amount for married taxpayers filing separately), $452,400 for heads of household, and $425,800 for any other individual (other than an estate or trust).

Important: These new tax rates will not affect your tax on the return you will soon file for 2017, however they will almost immediately affect the amount of your wage withholding and the amount, if any, of estimated tax that you may need to pay.

A related change is that the future annual indexing of the rate brackets (and many other tax amounts) for inflation, which helps to prevent "bracket creep" and the erosion of the value of a variety of deductions and credits due solely to inflation, will be done in a way that understates inflation more than the current method does. While it won't be very recognizable immediately, over the years this will push some additional income into higher brackets and reduce the value of many tax breaks.

Estate and Gift Tax

Changes have been made to the estate and gift tax exemption, effective beginning in 2018, that will result in many fewer estates being subject to the 40% tax, and larger estates owing less tax.

Before the Tax Cuts and Jobs Act (TCJA), the first $5 million (as adjusted for inflation in years after 2011) of transferred property was exempt from estate and gift tax. For estates of decedents dying and gifts made in 2018, this "basic exclusion amount" as adjusted for inflation would have been $5.6 million, or $11.2 million for a married couple with proper planning and estate administration allowing the unused portion of a deceased spouse's exclusion to be added to that of the surviving spouse (known as "portability").

Exclusion doubled. The new law temporarily doubles the amount that can be excluded from these transfer taxes. For decedents dying and gifts made from 2018 through 2025, the TCJA doubles the base estate and gift tax exemption amount from $5 million to $10 million. Indexing for post-2011 inflation, brings this amount to approximately $11.2 million for 2018, and $22.4 million per married couple, with some basic portability techniques.

A related transfer tax called the generation-skipping transfer (GST) tax is designed to prevent avoidance of estate and gift taxes by skipping transfers to the next successive generation. The TCJA doesn't specifically mention generation-skipping transfers, but since the GST exemption amount is based on the basic exclusion amount, generation-skipping transfers will also benefit from the post-2017 increased exclusion.

This increased exclusion amount may have an impact on your current estate plan and cause you to consider the need to redraft some important documents, including wills and trusts. For larger estates, it gives you more exemption to work with in your transfer tax planning.

Business Changes

There are many business tax changes and many of them apply to specific industries. We will not cover all the changes here but highlight many of the general changes that will apply to most business. Depreciation and the new qualified business deduction for pass-through entities is discussed under their own sub-headings. The following changes are effective for tax years beginning in 2018:

- For C-corporations, beginning with the 2018 tax year, the corporate tax rate is a flat 21% and the corporate alternative minimum tax is eliminated.

- Net operating loss deduction (NOL) is limited to 80% of taxable income. Carrybacks of NOLs are no longer allowed except for farming losses which can be carried back 2 years. NOLs are now carried forward indefinitely.

- Business Interest deduction is limited to 30% of the taxpayers adjusted taxable income for the year plus floor plan financing interest. Unused business interest is carried forward indefinitely with special rules for partnerships and S-Corporations. This limitation does not apply to a taxpayer that meets the $25 million gross receipts test for any year (this is average annual gross receipts for the three prior years). This rule does not apply to electing real property trade or business, farming business or regulated utilities.

- The domestic production activity deduction is repealed.

- The rule that allowed a deduction for entertainment, amusement, or recreation that was directly related to or associated with the active conduct of the taxpayer's trade or business is repealed. Entertainment expenses are completely nondeductible.

- Only 50% of food or beverage expenses is deductible for providing food and beverages to employees at an eating facility that qualifies as a de minimis fringe benefit such as employer provided meals on the employer’s business premises. This was 100% deductible before. No deduction is allowed after December 31, 2025.

- No deduction is allowed for a qualified transportation fringe.

- The rule that fines and penalties paid to a government entity are nondeductible is expanded to include any amount paid or incurred to, or at the direction of, a government or governmental entity in relation to the violation of any law or the investigation or inquiry by such government or entity into the potential violation of any law. Certain exceptions apply.

- No business expense deduction is allowed for (1) any settlement or payment related to sexual harassment or sexual abuse, if the settlement or payment is subject to a nondisclosure agreement or the attorney's fees related to the settlement or payment.

- Lobbying a local council or similar governing body, including an Indian tribal government is no longer deductible.

- Deduction of FDIC premiums is phased out for banks with assets over $10 billion and eliminated for banks with assets over $50 billion.

- New business credit for paid family and medical leave is available.

- The credit for qualified rehabilitation expenditures is limited to certified historic structures and must be taken ratably over 5 years.

Fixed Assets and Depreciation

The Tax Cuts and Jobs Act (TCJA) has effectively lowered the cost of acquiring capital assets by making substantial changes to the income tax rules for bonus depreciation and other "cost recovery." There's a lot to discuss in this area.

Before the TCJA, taxpayers could deduct 50% of the cost of most new tangible property (other than buildings and some building improvements) and most new computer software in the year placed in service (with adjustment of the regular depreciation deductions allowed in that year and later years). The "50% bonus depreciation" was to be phased down to 40% for property placed in service in calendar year 2018, 40% in 2019 and 0% in 2020 and afterward.

But for property placed in service and acquired after Sept. 27, 2017 (with no written binding contract for acquisition in effect on Sept. 27, 2017), the TCJA raised the 50% rate to 100%. (Appropriately, 100% bonus depreciation is also called "full expensing" or "100% expensing".)

Additionally, the post-Sept. 27, 2017 property eligible for bonus depreciation can be new or used. Also, certain film, television and live theatrical productions are now eligible.

On the other hand, the TCJA repealed the eligibility of "qualified improvement property" (certain improvements to buildings other than residential rental buildings). And the TCJA excluded from bonus depreciation public utility property and property owned by certain vehicle dealerships.

The 2018/2019/2020 phase down (above) doesn't apply to post-Sept 27, 2017 property. Instead, 100% depreciation is decreased to 80% for property placed in service in calendar year 2023, 60% in 2024, 40% in 2025, 20% in 2026 and 0% in 2027 and afterward.

Before the TCJA, most smaller taxpayers could immediately deduct the entire cost of section 179 property up to an annual limit of $500,000 adjusted for inflation. For property placed in service in tax years that begin in 2018, the inflation adjusted limit was scheduled to be $520,000. The annual limit was reduced by one dollar for every dollar that the cost of all section 179 property placed in service by the taxpayer during the tax year exceeded a $2 million threshold adjusted for inflation. For property placed in service in tax years that begin in 2018, the threshold was scheduled to be $2,070,000. But for tax years beginning after 2017, the TCJA substitutes as the annual dollar limit $1 million (inflation-adjusted for tax years beginning after 2018) and $2.5 million as the phase down threshold (similarly inflation adjusted).

Before the TCJA, section 179 property included most tangible personal property as well non-customized ("off-the-shelf") computer software. Generally, the only buildings or other land improvements that qualified were restaurant buildings and certain improvements to leased space, retail space or restaurant space that were treated as section 179 property under an election. The TCJA, for tax years beginning after 2017, eliminated these categories and substituted as an elective category the much broader qualified improvement property category (that is no longer eligible for bonus depreciation, see above). Also, taxpayers can, for buildings other than rental real estate buildings, elect to treat as section 179 property previously ineligible building components that are roofs, heating, ventilation and air conditioning property, fire protection and alarm systems, or security systems.

And items (for example refrigerators) used in connection with residential buildings (though not the buildings themselves) are eligible to be section 179 property.

Other rules for real property depreciation. If placed in service after 2017, qualified improvement property, in addition to no longer qualifying for bonus depreciation and being newly eligible as section 179 property, has a 15-year depreciation period (rather than the usual 39-year period for non-residential buildings).

Apartment buildings and other residential rental buildings placed in service after 2017 generally continue to be depreciated over a 27.5 period, but should the alternative depreciation system (ADS) apply to a building either under an election or because the building is subject to one of the conditions (for example, tax-exempt financing) that make ADS mandatory, the ADS depreciation period is 30 years instead of the pre-TCJA 40 years.

For tax years beginning after 2017, if a taxpayer in a real property trade or business "elects out" of the TCJA's limits on business interest deductions, the taxpayer must depreciate all buildings and qualified improvement property under the ADS.

Vehicles. The TCJA triples the annual dollar caps on depreciation (and Code Sec. 179 expensing) of passenger automobiles and small vans and trucks. Also, because of the extension of bonus depreciation, the increase, allowed only to vehicles allowed bonus depreciation, of $8,000 in the otherwise-applicable first year cap is extended through 2026 (with no phase-down).

Computers and peripheral equipment. Under the TCJA, computer or peripheral equipment placed in service after 2017 isn't treated as "listed property" whether or not used in a business establishment (or home office) and whether or not an employee's use is for employer convenience. So, an item doesn't have to pass a more-than-50%-qualified-business-use test to be eligible for Code Sec. 179 expensing and to avoid mandatory use of the ADS.

Farm property. For items placed in service after 2017, the TCJA shortens the depreciation period for most farming equipment and machinery from seven years to five and allows many types of farm property to be depreciated under the 200% (instead of 150%) declining balance method.

If a taxpayer elects to not have a farming business be subject to the TCJA's limits on business interest deductions, the taxpayer must depreciate under the ADS the business's buildings and other assets property that have a depreciation period of 10 years or more.
Elective rules that sometimes make it easier for fruit-or-nut-bearing trees and vines to qualify for bonus depreciation continue to apply.

Alternative minimum tax. Property eligible for bonus depreciation continues to be exempt from the unfavorable depreciation adjustments that apply under the AMT. However, the corporate AMT has been repealed; accordingly, the election that corporations could make to give up bonus and other accelerated depreciation for bonus-depreciation-eligible property in exchange for a refund of otherwise-deferred AMT credits was eliminated.

Pass-Through Business Entities

A significant new tax deduction taking effect in 2018 under the new tax law. It should provide a substantial tax benefit to individuals with "qualified business income" from a partnership, S corporation, LLC, or sole proprietorship.

The deduction is 20% of your "qualified business income (QBI)" from a partnership, S corporation, or sole proprietorship, defined as the net amount of items of income, gain, deduction, and loss with respect to your trade or business. The business must be conducted within the U.S. to qualify, and specified investment-related items are not included, e.g., capital gains or losses, dividends, and interest income (unless the interest is properly allocable to the business). The trade or business of being an employee does not qualify. Also, QBI does not include reasonable compensation received from an S corporation, or a guaranteed payment received from a partnership for services provided to a partnership's business.

The deduction is taken "below the line," i.e., it reduces your taxable income but not your adjusted gross income. But it is available regardless of whether you itemize deductions or take the standard deduction. In general, the deduction cannot exceed 20% of the excess of your taxable income over net capital gain. If QBI is less than zero it is treated as a loss from a qualified business in the following year.

Rules are in place (discussed below) to deter high-income taxpayers from attempting to convert wages or other compensation for personal services into income eligible for the deduction.

For taxpayers with taxable income above $157,500 ($315,000 for joint filers), an exclusion from QBI of income from "specified service" trades or businesses is phased in. These are trades or businesses involving the performance of services in the fields of health, law, accounting, consulting, athletics, financial or brokerage services, or where the principal asset is the reputation or skill of one or more employees or owners. Here's how the phase-in works: If your taxable income is at least $50,000 above the threshold, i.e., $207,500 ($157,500 + $50,000), all of the net income from the specified service trade or business is excluded from QBI. (Joint filers would use an amount $100,000 above the $315,000 threshold, or $415,000.) If your taxable income is between $157,500 and $207,500, you would exclude only that percentage of income derived from a fraction the numerator of which is the excess of taxable income over $157,500 and the denominator of which is $50,000. So, e.g., if taxable income is $167,500 ($10,000 above $157,500), only 20% of the specified service income would be excluded from QBI

($10,000/$50,000). (For joint filers, the same operation would apply using the $315,000 threshold, and a $100,000 phase-out range.)

Additionally, for taxpayers with taxable income more than the above thresholds, a limitation on the amount of the deduction is phased in based either on wages paid or wages paid plus a capital element. Here's how it works: If your taxable income is at least $50,000 above the threshold, i.e., $207,500 ($157,500 + $50,000), your deduction for QBI cannot exceed the greater of (1) 50% of taxpayer's allocable share of the W-2 wages paid with respect to the qualified trade or business, or (2) the sum of 25% of such wages plus 2.5% of the unadjusted basis immediately after acquisition of tangible depreciable property used in the business (including real estate). So, if your QBI were $100,000, leading to a deduction of $20,000 (20% of $100,000), but the greater of (1) or (2) above were only $16,000, your deduction would be limited to $16,000, i.e., it would be reduced by $4,000. And if your taxable income were between $157,500 and $207,500, you would only incur a percentage of the $4,000 reduction, with the percentage worked out via the fraction discussed in the preceding paragraph. (For joint filers, the same operations would apply using the $315,000 threshold, and a $100,000 phase-out range.)

Other limitations may apply in certain circumstances, e.g., for taxpayers with qualified cooperative dividends, qualified real estate investment trust (REIT) dividends, or income from publicly traded partnerships.

Obviously, the complexities surrounding this substantial new deduction can be formidable, especially if your taxable income exceeds the threshold discussed above.

Year End Planning

Since most of the changes will go into effect next year, there's still a narrow window of time before year-end to soften or avoid the impact of crackdowns and to best position yourself for the tax breaks that may be heading your way. Here's a quick rundown of last-minute moves you should think about making.

Lower tax rates coming. The Tax Cuts and Jobs Act will reduce tax rates for many taxpayers, effective for the 2018 tax year. Additionally, many businesses, including those operated as pass-throughs, such as partnerships, may see their tax bills cut.

The general plan of action to take advantage of lower tax rates next year is to defer income into next year. Some possibilities follow:

- If you are about to convert a regular IRA to a Roth IRA, postpone your move until next year. That way you'll defer income from the conversion until next year and have it taxed at lower rates.

- Earlier this year, you may have already converted a regular IRA to a Roth IRA but now you question the wisdom of that move, as the tax on the conversion will be subject to a lower tax rate next year. You can unwind the conversion to the Roth IRA by doing a recharacterization—making a trustee-to-trustee transfer from the Roth to a regular IRA. This way, the original conversion to a Roth IRA will be cancelled out. But you must complete the recharacterization before year-end. Starting next year, you won't be able to use a recharacterization to unwind a regular-IRA-to-Roth-IRA conversion.

- If you run a business that renders services and operates on the cash basis, the income you earn isn't taxed until your clients or patients pay. So, if you hold off on billings until next year—or until so late in the year that no payment will likely be received this year—you will likely succeed in deferring income until next year.

- If your business is on the accrual basis, deferral of income till next year is difficult but not impossible. For example, you might, with due regard to business considerations, be able to postpone completion of a last-minute job until 2018, or defer deliveries of merchandise until next year (if doing so won't upset your customers). Taking one or more of these steps would postpone your right to payment, and the income from the job or the merchandise, until next year. Keep in mind that the rules in this area are complex and may require a tax professional's input.

- The reduction or cancellation of debt generally results in taxable income to the debtor. So, if you are planning to make a deal with creditors involving debt reduction, consider postponing action until January to defer any debt cancellation income into 2018.

Disappearing or reduced deductions, larger standard deduction. Beginning next year, the Tax Cuts and Jobs Act suspends or reduces many popular tax deductions in exchange for a larger standard deduction. Here's what you can do about this right now:

- Individuals (as opposed to businesses) 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 the total of (1) state and local property taxes; and (2) state and local income taxes. To avoid this limitation, pay the last installment of estimated state and local taxes for 2017 no later than Dec. 31, 2017, rather than on the 2018 due date. But don't prepay your 2018 state income tax bill that will bill. Congress says such a prepayment won't be deductible in 2017. However, Congress only forbade prepayments for state income taxes, not property taxes, so a prepayment on or before Dec. 31, 2017, of a 2018 property tax installment is apparently OK.

- The itemized deduction for charitable contributions won't be chopped. But because most other itemized deductions will be eliminated in exchange for a larger standard deduction (e.g., $24,000 for joint filers), charitable contributions after 2017 may not yield a tax benefit for many because they won't be able to itemize deductions. If you think you will fall in this category, consider accelerating some charitable giving into 2017.

- The new law temporarily boosts itemized deductions for medical expenses. For 2017 and 2018 these expenses can be claimed as itemized deductions to the extent they exceed a floor equal to 7.5% of your adjusted gross income (AGI). Before the new law, the floor was 10% of AGI, except for 2017 it was 7.5% of AGI for age-65-or-older taxpayers. But keep in mind that next year many individuals will have to claim the standard deduction because, for post-2017 years, many itemized deductions will be eliminated and the standard deduction will be increased. If you won't be able to itemize deductions after this year, but will be able to do so this year, consider accelerating “discretionary” medical expenses into this year. For example, before the end of the year, get new glasses or contacts, or see if you can squeeze in expensive dental work such as an implant.

Other year-end strategies. Here are some other last-minute options that can save tax dollars in view of the new tax law:

- The new law substantially increases the alternative minimum tax (AMT) exemption amount, beginning next year. There may be steps you can take now to take advantage of that increase. For example, the exercise of an incentive stock option (ISO) can result in AMT complications. So, if you hold any ISOs, it may be wise to postpone exercising them until next year. And, for various deductions, e.g., depreciation and the investment interest expense deduction, the deduction will be curtailed if you are subject to the AMT. If the higher 2018 AMT exemption means you won't be subject to the 2018 AMT, it may be worthwhile, via tax elections or postponed transactions, to push such deductions into 2018.

- For decades, businesses have been able to deduct 50% of the cost of entertainment directly related to or associated with the active conduct of a business. For example, if you take a client to a nightclub after a business meeting, you can deduct 50% of the cost if strict substantiation requirements are met. But under the new law, for amounts paid or incurred after Dec. 31, 2017, there's no deduction for such expenses. So, if you've been thinking of entertaining clients and business associates, do so before year-end.

- The new law suspends the deduction for moving expenses after 2017 (except for certain members of the Armed Forces), and suspends the tax-free reimbursement of employment-related moving expenses. So, if you're in the midst of a job-related move, try to incur your deductible moving expenses before year-end, or if the move is connected with a new job and you're getting reimbursed by your new employer, press for a reimbursement to be made to you before year-end.

- Under current law, various employee business expenses, e.g., employee home office expenses, are deductible as itemized deductions if those expenses plus certain other expenses exceed 2% of adjusted gross income. The new law suspends the deduction for employee business expenses paid after 2017. So, we should determine whether paying additional employee business expenses in 2017 that would otherwise be paid in 2018, would provide you with an additional 2017 tax benefit. Also, now would be a good time to talk to your employer about changing your compensation arrangement—for example, your employer reimbursing you for the types of employee business expenses that you have been paying yourself up to now, and lowering your salary by an amount that approximates those expenses. In most cases, such reimbursements would not be subject to tax.

Please keep in mind that I've described only some of the year-end moves that should be considered in light of the new tax law.

For those of you who would like a more detailed outline of the changes refer to the attached file "Tax Reform Roadmap" from Bloomberg Tax.

Obviously, the complexities surrounding these changes can be formidable. Please give us a call to discuss any questions you may have and to determine how these changes will apply to your situation.

Sincerely,
Gerety & Associates, CPAs

Gerety & Associates, CPAs