Jeffrey G. Vesely, C.P.A.
An Accountancy Corporation
573 Pearson Road
Paradise, CA 95969
2021 E 4th St, Ste 215
Santa Ana, CA 92705
Phone (800) 330-3662
Fax (800) 330-3662

Monday, November 20, 2017

As you may be aware Congress appears poised to enact a major tax reform law that could potentially make fundamental changes in the way you and your family calculate your federal income tax bill, and the amount of federal tax you will pay.

Please keep in mind that this letter describes only some of the year-end moves that should be considered in light of the tax reform package currently before Congress—which, it bears emphasizing, may or may not actually become law.

If you would like more details about current law for 2017 please visit my web site at www.vesely cpa.com.

Provided Congress reaches an agreement, lower tax rates are coming. The tax bill that passed in the House of Representatives, and the one before the Senate, would reduce tax rates for many taxpayers beginning in the 2018 tax year. Additionally, businesses may see their tax bills cut, although the final form of the relief isn't clear right now.

The general action plan, to take advantage of lower 2018 tax rates, would be to defer income from 2017 into next year. Some possibilities follow:

- . . . If you are an employee who believes a bonus is coming your way, ask your employer to consider delaying payment of the bonus until next year.
- . . . If you are thinking of converting a regular IRA to a Roth IRA, postponing your move until next year may save tax.
- . . . 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. If you hold off on billings until next year, or until so late in the year that no payment can be received this year, you will succeed in deferring income until next year. Note that instructing someone to not pay you until 2018 may still be considered taxable in 2017 (Constructive Receipt Doctrine).
- . . . 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 job until 2018, or defer deliveries of merchandise until next year. 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 that involves reducing your debt, consider postponing action until January.

Beginning next year, both the House-passed tax reform bill and the pending Senate version would repeal or reduce many popular itemized deductions in exchange for a larger standard deduction. Consider the following:

- The House-passed tax reform bill would eliminate the deduction for nonbusiness state and local income or sales tax, but would allow an up-to-$10,000 deduction for real estate taxes on your home. The bill before the Senate would ban all nonbusiness deductions for state and local income, sales tax, and real estate tax. If you are an employee who expects to owe state and local income taxes when you file your return next year, consider asking your employer to increase withholding on those taxes in 2017. That way, additional amounts of state and local taxes withheld before the end of the year will be deductible in 2017. Similarly, pay the last installment of estimated state and local taxes for 2017 by December 1st rather than on the January 2018 due date, and prepay real estate taxes on your home by Dec. 1st.

- Neither the House bill nor the bill before the Senate would repeal the itemized deduction for charitable contributions. But because most other itemized deductions would be eliminated in exchange for a larger standard deduction (e.g., in both bills, $24,000 for joint filets), charitable contributions after 2017 may not yield a tax benefit as it has in the past. If you think you will fall in this category, consider accelerating some charitable giving into 2017.
- The House-passed bill, but not the one before the Senate, would eliminate the itemized deduction for medical expenses. If this deduction is indeed chopped in the final tax bill, and you are able to claim medical expenses as an itemized deduction this year, consider accelerating "discretionary" medical expenses into this year. For example, order and pay for new glasses, arrange to take care of needed dental work, or install a stair lift for a disabled person before the end of the year. Also, if you have unpaid medical bills, charging these on your bank credit cards will give you a deduction when charged, rather than when paid. Remember that medical deductions must also exceed 10% of AGA.

Other year-end strategies. Here are some other "last minute" moves that could wind up saving tax dollars in the event tax reform is passed:

- The exercise of an incentive stock option (ISO) can result in AMT complications. But both the Senate and House versions of the tax reform bill call for the AMT to be repealed next year. So if you hold any Is Os, it may be wise to hold off exercising them until next year.
- If you've got your eye on a plug-in electric vehicle, buying one before year-end could yield you up to a $7,500 discount in the form of a tax credit. The House-passed bill, but not the one before the Senate, would eliminate this credit after 2017.
- If you're in the process of selling your principal residence and you wrap up the sale before year end, up to $250,000 of your profit ($500,000 for certain joint filets) will *generally* be tax-free if you owned and used the property as your main home for at least two of the five years before the sale. However, under the House-passed bill and the bill before the Senate, the $250,000/$500,000 tax free amounts would apply to post-2017 sales only if you own and use the property as your main home for *five out of the previous eight years*.
- Under current rules, alimony payments generally are an above-the line deduction for the payor and included in the income of the payee. Under the House-passed tax bill but not the version before the Senate, alimony payments would not be deductible by the payor or includable in the income of the payee, generally effective for any divorce decree or separation agreement executed after 2017. So if you're in the middle of a divorce or separation agreement, and you'll wind up on the paying end, it would be worth your while to wrap things up before year end if the House-passed bill carries the day. On the other hand, if you'll wind up on the receiving end, it would be worth your while to wrap things up next year.
- Both the House-passed bill and the version before the Senate would repeal the deduction for moving expenses after 2017 (except for certain members of the Armed Forces), so if you're about to embark on a job-related move, try to incur your deductible moving expenses before year-end.

Keep in mind the bill is not yet law. There will likely be important changes before passage. If you would like more details about any aspect of how the proposed legislation may affect you, please do not hesitate to call.

Sincerely,

Jeff

(See www.veselycpa.com for more tax updates)