

From the desk of Peter S. Muffoletto, C.P.A.

Proposed Tax Legislation is a Disaster – what to do?

Congress appears poised to enact major tax reform without consideration to what it will do to the economy, nor who they will be taxing at the cost of sending the economy into recession. The proposed law will potentially fundamentally change in the way you and your family calculate your federal income taxes, and for those in the higher middle to lower high income brackets will be devastating in the results all in the name of benefitting large corporate taxpayers.

Both the tax bill passed the House of Representatives and the one before the Senate would reduce tax rates for many taxpayers effective for the 2018 tax year but at the cost of many lost deductions, thereby pushing taxes upwards.

Additionally, businesses may see their tax bills lowered as well although the final form of the relief is not clear just yet.

The general plan of action to take advantage of lower tax rates next year would be to defer income into next year.

Some possibilities follow:

- If you are an employee who believes a bonus is coming your way before year end consider asking your employer to delay payment of the bonus until next year.
- If you are thinking of converting a regular IRA to a Roth IRA postpone doing so until next year.
The conversion next year will potentially have those funds taxed at lower rates.
- If you own a business that renders services and operates on the cash basis the income you earn is not taxed until the receipt of those earnings therefore 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.
- If your business is on the accrual basis deferral of income till next year is difficult but not impossible. 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. 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 Deductions, Larger Standard Deduction

Beginning next year both the House-passed tax reform bill and the version before the Senate would repeal or reduce many popular tax deductions in exchange for a larger standard deduction. Here's what you can do about this right now:

- 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. 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 31 rather than on the 2018 due date, and prepay all real estate taxes on your home.

- Neither the House-passed 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 filers), charitable contributions after 2017 may not yield a tax benefit for many. 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 eliminated 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.

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 therefore if you hold any ISOs, it may be wise to hold off exercising them until next year.
- If you have your eye on a plug-in electric vehicle buying one before year-end could yield you an up-to-\$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 are 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 filers) will 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 includible in the income of the payee, generally effective for any divorce decree or separation agreement executed after 2017.

If you are in the middle of a divorce or separation agreement and you will wind up on the paying marital support 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' are receiving marital support 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) try to incur your deductible moving expenses before year-end.

Please keep in mind that I've described 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.

In the overall, the tax bill(s) as proposed, and passed by the House this past week are a disaster for the U.S. Economy, and will most certainly within a very short period send the economy into a very deep recession as did The 1986 Tax Reform Bill did which the economy did not recover from until after 1996.

If you would like more details about any aspect of how the proposed legislation may affect you, please do not hesitate to call.

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