Cut Your Tax Bill: What to Do Before Jan. 1

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A pedestrian walks past the U.S. Capitol. Photo: Andrew Harrer/Bloomberg News

By

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For millions of Americans, the most important tax-planning tip between now and the end of the year is to check your charitable contributions.

They are on Schedule A, Line 19 of your tax return. Do these donations, plus your mortgage interest, allowable medical expenses, and $10,000 of state and local taxes, normally add up to more than $12,000 if you are single and $24,000 if you are married filing jointly?

Unless the total tops these amounts—or you have other large, uncommon deductions—the tax overhaul is likely to wipe out your donation write-offs next year and beyond.

Here’s why.

The tax overhaul just approved by the House of Representatives nearly doubles the “standard” deduction, which is the amount filers get if they don’t itemize write-offs separately on Schedule A. Starting next year, the standard deduction will be $12,000 for single filers and $24,000 for married couples filing jointly.

Tax Package

Currently about 30% of filers, or 45 million, itemize their deductions. The pending change will cause perhaps 20 million or more of them to switch to the standard deduction. Many will be married couples, as the new $10,000 cap on state and local tax deductions is per return, not per person.

The bottom line is that affected taxpayers will no longer get value from deducting charitable donations.

There are ways around the coming limit. One is to accelerate donations that won't make sense next year. Another is to "bunch" future donations so that every few years, it is possible to surmount the higher threshold and use a deduction.

Affected givers should also consider so-called donor-advised funds. These popular accounts enable donors to bunch smaller gifts into one large amount and take a deduction. The donor can then designate charitable recipients later, and meanwhile the assets can be invested and grow tax-free.

All year-end donors should think twice before writing a check to a charity or donor-advised fund, especially after the markets' surge this year. A better move is often to contribute appreciated investments such as shares of stock. This allows the donor to take an immediate deduction for the full market value up to certain limits, while not having to pay capital-gains tax on the appreciation. This tax break isn't being affected by the overhaul.

Donors who have IRAs and are 70½ or older have another good giving option. They can contribute up to $100,000 of IRA assets directly to one or more charities and have it count toward their annual required distributions from the IRA.

Here are other year-end tax moves to consider, based on the overhaul.

Accelerate state tax payments. The new tax overhaul caps deductions of state and local income or sales and property taxes (SALT) at $10,000 per return.

The bill specifically bars deductions for payments earmarked for 2018 state income taxes, but this leaves room for making other state tax payments before year-end.

David Lifson, a certified public accountant with Crowe Horwath, said it is still permissible to make "generous estimates" of your 2017 state income-tax liability. Such overpayments would be deductible in 2017, and become taxable for 2018. For a top-bracket taxpayer, the saving could be 2.6 percentage points.

Tax specialists are also urging many clients to pay the balance due of 2017 state income taxes before Jan. 1 and to consider paying 2018 property taxes that will exceed next year's limit.

Beware: Taxpayers who owe alternative minimum tax for 2017 will lose some or all of the value of SALT deductions. For them, accelerating payments could either provide no benefit or else reduce the benefit they have. Because the AMT is complex, it is difficult to know the best moves without using a computer program.

Also check whether your state will accept payments of 2018 property taxes this year. In general, says Mr. Lifson, taxpayers can only pay 2018 taxes that have already been billed.

Defer pass-through income. The final bill allows so-called pass-through firms such as partnerships and S corporations to deduct 20% of certain business income. This benefit doesn't apply to higher-earning service firms owned by doctors, lawyers, consultants, investment managers, and the like.

Pass-through owners who would benefit from the new provision should consider deferring income into 2018.

Pay employee business expenses. Under current law, unreimbursed business expenses can only be deducted if they exceed 2% of a worker's income. This write-off is being eliminated, so employees who take it should pay the expenses before year-end.

Harvest losses. An annual ritual for many investors with taxable accounts is meeting with brokers to "harvest" capital losses from losing positions. These losses can then offset taxable gains from winners. Losers shouldn't be repurchased for 30 days either side of a sale, but winners can be repurchased immediately.

A provision in the Senate bill would have ended investors' ability to choose specific shares when selling part of a position, making loss harvesting far more difficult. This change didn't make it into the final bill, to the relief of many.

Corrections & Amplifications
The final version of the tax bill keeps a credit of up to $7,500 for plug-in vehicles. An earlier version of this article incorrectly stated that the latest bill would repeal the credit. Dec. 19, 2017.

Write to Laura Saunders at laura.saunders@wsj.com

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