

Year-end Tax Planning Opportunities Created by the New Tax Bill Recently Passed by Congress

Background:

Starting in 2018, the standard deduction is increasing substantially to \$12,000 for single taxpayers and \$24,000 for married filing joint (before the change, it was \$6,350 for single and \$12,700 for joint). Therefore, you should look at your 2016 tax return and see how much you had entered on line 29 of schedule A. If you were a single taxpayer who had an amount in the range of \$6,000 to \$7,500 or a married (filing joint) taxpayer who had an amount of \$12,000 to \$25,000, you may want to consider prepaying some expenses.

If you prepay qualified items in 2017, you will *get the deduction*. If you wait to pay in 2018 when you normally do, you may *not get a deduction* because of the larger standard deduction. If you multiply the amounts that you prepay times your tax rate (these range from 15% to 39.6%), you will determine the tax savings for paying early. We have three areas that we are encouraging you to consider prepaying; real estate taxes, charitable contributions and 2017 estimated state income tax payments (if any).

Real Estate Tax:

Taxpayers cannot take a deduction by simply prepaying for a future expense. In SD we pay our real estate taxes one year in arrears. Therefore, our 2017 real estate taxes are normally due on April 30th (1/2) and October 31st (1/2) in 2018. However, since we have been assessed the amount by the end of 2017, we are allowed to deduct in 2017 if they are paid before the end of the year. For those of you who own property in other states, you can check with those states. For surrounding states, ND & NE residents also pay a full year in arrears and IA residents pay ½ year in arrears. These states require an exact payment. MN residents pay a full year in arrears but they do not calculate the real estate tax amounts until next Spring. They have advised us that they allow residents to call, obtain and pay estimated amounts which they will accept as payments on your account prior to year-end.

Here are the steps you should follow if you decide to pay your taxes before December 31st:

- If you currently escrow, you should call the mortgage company first and explain that you are planning on paying your real estate taxes early. You may receive a mixed response because you are sometimes talking to personnel from a different state that may give you a narrative that is not correct. Several of the local mortgage companies have advised clients to pay the real estate tax and then provide them with the paid receipt. After they receive proof of payment, they will reduce your escrow payment for the next 12 months. Other mortgage companies may have different solutions. It would be advisable to make sure that they will work with you on this before you commit to pay ahead.
- You need to contact the county to find out how much the tax will be. Neither Minnehaha nor Lincoln County will have them posted on their website and will not allow on line payment because you are paying early. That being said, you must pay the exact amount, or they will send your check back. You can go down to the treasurer's office. The up side is you will find out the amount, make your payment and receive your

receipt at one time. The down side is there may be long lines. Minnehaha County has just determined the assessment amounts for 2017. However, Lincoln County has advised us that they will not have those amounts available until Wednesday, December 27th.

- The other alternative is to call the Treasurer's office and specifically ask them for the 2017 taxes that are due in 2018. If you give them your parcel number, it makes it easier for them to find your tax-however an address will also work. Then you can mail your check in 2017 and make sure you enclose a note that lists your parcel number, address and comment that you are paying your 2017 taxes due in 2018. They will not send you a receipt until early January, but you will have your cancelled check as proof that you paid it in 2017.

Gifts to Charity:

Gifts to qualified charitable organizations are always deductible in the year that they are paid. Although not required, you could send your donation with a note stating that you are prepaying your normal gifts given in 2018 as more of an FYI to the charity. As long as you mailed the checks to the organizations before December 31st, you will be allowed to claim the deduction in 2017.

For those of you who have clothing and furniture to give away-you should do so before year end and of course, make sure you receive a receipt for your donation. Again, this may be the last year that you will be able to deduct this.

Since many of you may never itemize again under the new law, you may consider giving much more this year. Examples could include giving enough to equal multiple years donations. Again, you could send directly to the charity, but many times it will distort their income because they are getting multiple year donations in 2017 and then will not receive anything from you as a donor for a couple of years. A good alternative is to make a gift to the Sioux Falls Area Community Foundation and utilize their "Donor Advised Fund". Using this concept, you would make the gift in 2017 and take the entire deduction. Then in the next year or multiple of years, you would advise them how you want them to disburse to your favorite charities until it has all been given away.

This fund has a minimum contribution amount of \$5,000, charges a ½ % annual fee to manage the account, will pay you a minimum short- term investment yield and will allow you to make unlimited contributions out of the fund (minimum of \$100) until the fund has been completely disbursed. For more information you can call Gina Jahr at 336-7055 or check their web site at www.sfacf.org.

State Income Tax Payments:

For those of you who are making state income tax estimated payments, be sure to pay your January (2018) payment before December 31, 2017. If you feel you are underpaid, you should accelerate the estimated payment to the extent of what you think you will owe.

Sales tax on vehicle Purchases:

For those few clients who may have recently purchased a vehicle, be sure to pay your sales tax before December 31, 2017.

Caution:

For those of you who are higher income and/or have significant real estate taxes and state income tax, you may need to take one more step. Next year your state income tax and real estate tax deduction will be capped at \$10,000. Therefore, you would have an incentive to prepay. However, if your adjusted gross income is in the approximate \$200,000 or more range, you could be subject to AMT tax and your prepay will not give you a benefit. Therefore, if this is your situation, be sure to call our office before prepaying any taxes.

Summary

If it appears that you will not itemize in future years, most of you will have some significant tax savings by prepaying. Example; assume your real estate taxes are \$5,000 and you normally give \$5,000 to charities. If you prepay both of these items in 2017 and you are in the 25% bracket, you will save \$2,500. If you pay these items in 2018 as you normally would, they may not save you any income tax because your standard deduction will probably be higher.