North American Management

Your True North

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PLANNING NOTE

Now That You've Paid Your Property Taxes, What's Next?

While the biggest changes in the recently enacted tax reform affect corporations rather than individuals, there are a few lines on your personal return that are likely to be different. Below we've highlighted a few areas that could have an impact for you or your family in 2018.

Mortgage Interest and Taxes on Real Property

If you are considering buying a home or second vacation property, the amount of interest you can deduct on any new mortgage has just decreased. In the past you could deduct the interest you paid on up to $1 million in mortgage loans. Now, you will only be able to deduct up to $750,000. The good news is that this reduced limit doesn't apply to existing mortgages, only new ones.

Interest on home equity loans did not fare as well under the new bill. 2017 will be the last year you can deduct interest on your home equity loan, whether it is new or has been outstanding for years. A home equity loan may still offer a more favorable interest rate compared to other types of debt, but if you have been meaning to pay off the home equity loan, now is the time to do it.

If you were one of those people standing in the long lines at your local tax assessor's office before year-end, you probably already know that the deductibility of state and local taxes is now capped. Regardless of your personal state and local income tax bills or your property assessment, you will only be able to deduct a maximum of $10,000. For clients in high tax states, this could mean a significant reduction in deductions. While few people can just pick up and move to a more tax-friendly neighborhood, over time it will be interesting to see how this cap affects state and local tax assessments.

Gifts to Others

Charities are understandably very worried about this tax reform. Now that the standard deduction has doubled (from $12,700 to $24,000 for married couples), many more tax filers will lose the benefit of itemizing their deductions. If you don't itemize, then you don't take a separate deduction for charitable contributions. Does this mean you should stop making contributions to charities? Of course not, but you may want to consider using a Donor Advised Fund ("DAF"). In years in which it's favorable to itemize deductions, you can make larger donations to the DAF, and then use that account to give to your favorite charities in years in which you don't elect to itemize.

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Your family, on the other hand, should be happy under the new tax rules. The annual gifting exclusion has now increased to $15,000 per person. That said, the incentive to give away your money may have just gone down, as the federal lifetime exclusion has doubled. This means your estate won't be subject to federal estate tax until it is over $11.2 million ($22.4 million for married couples). Does this mean you no longer have to worry about estate planning? Of course not! It might be a good time to revisit your estate plans, however, as the disparity between state and federal amounts in certain locations has just gotten wider.

529 College Savings Plans

Under the new tax reform, college savings plans are not just for college anymore. You can now use 529 plan money tax free for qualified K-12 private school education expenses. Consider using your annual gifting limits to beef up existing or start new 529 plans for grandchildren, knowing that the money can now also be used before college. Note, however, that if you want to help grandchildren with college <u>and</u> support the payment of private school tuition, you can always write a check directly to the school in question. The gift tax does not apply to direct payments of tuition or medical bills.

Medical Expenses

In the past, for those under age 65, only medical expenses over 10% of Adjusted Gross Income ("AGI") could be deducted on our federal tax returns. Under the new law, that limit comes down to 7.5% for 2017 and 2018 returns. While it is usually hard to predict medical circumstances that require large outlays of cash, it may make sense to get that knee replaced this year, before the AGI threshold is scheduled to go up to 10% again in 2019.

Your Paycheck

While there is much speculation about corporations raising wages and paying bonuses due to the corporate tax breaks in the new bill, it is probably best to take a wait-and-see approach. In the meantime, you should, however, check your withholdings. The IRS has yet to come out with a new withholding calculator for employers but once they do, employers will need to adjust their payroll calculations to account for the decrease in marginal rates. Don't look at your withholding in a vacuum, however. Due to the doubling of the standard deduction, the elimination of the personal exemption and the significant changes in itemized deductions, your tax bill could be higher than in the past. When summer comes we suggest you do a bit of mid-year tax planning. Using your 2017 return as comparison, look at 2018 estimated taxes and determine then if you need to change what your employer withholds from your paycheck.

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There are, of course, many more changes under this tax reform. Here at NAM we will continue to evaluate the impact of these changes for our clients. If you have questions pertaining to your particular situation, please give me or Patrick Egar, Director of Tax and Trust Services, a call.

Want to know more?

I will be posting additional tips regarding the new tax reform over the next month on my Twitter feed: **@FitFinanceAt40.**

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