Getting Ahead of 2017 Taxes

Now is a good time to concentrate on some last-minute tax planning. Here are some areas that are especially important.

Disappearing Deductions: The 2017 tax year brings in the change or disappearance of several specific deductions.

1. **Itemized Medical Expense Deduction**

Beginning in 2017, taxpayers age 65 and older are subject to an adjusted gross income (AGI) threshold of 10 percent, up from 7.5 percent. Let's say you have an AGI of $50,000. You'll now need to have medical expenses of at least $5,000 to deduct the costs, and even then, you can only deduct the amount exceeding $5,000. Therefore, if you're older than 65, you could consider accelerating medical procedures and payments into 2017 unless it's clear that you won't exceed the new, higher threshold.

2. **Mortgage Deductions**

The premiums for carrying private mortgage insurance are no longer deductible.
Also beginning in 2017, mortgage debt that's forgiven by a lender in a short sale or foreclosure is no longer excluded from the taxpayer's taxable income. Any taxpayer in this situation could be facing a large tax payment in April 2018 and may want to explore ways to soften the blow, like making estimated tax payments in 2017, if possible.

3. **Tuition and Fees Deduction**

The tuition and fees deduction of up to $4,000 in qualified education expenses for the taxpayer or eligible dependent was eliminated for tax years beginning with 2017.

4. **Energy-Efficient Home Improvement Tax Credits**

Solar energy systems are the only energy-saving and renewable energy sources eligible for a federal tax credit, which is equivalent to 30 percent of the purchase price through 2019, 26 percent through 2020, and 22 percent through 2021.

Unchanged Considerations: Here are some ways to manage or reduce your income tax bill.

1. **Contributing to Retirement Plans**

Automatic payroll deductions deposited into your self-managed or employer-sponsored retirement plans, like a 401(k), 403(b), SAR-SEP, SIMPLE IRA, etc., defer your taxable income and lower your tax bill. The $18,000 limit ($12,500 for SIMPLE plans) is an aggregate annual limit by person, not by plan. So, if you work for more than one employer or have more than one account type, monitor and adjust your overall contributions to avoid exceeding the limits.

2. **Making Charitable Contributions**

As an investor, you could consider donating shares of stocks, mutual funds, and other securities that have appreciated in value. By doing this, you will avoid paying capital gains tax on the appreciation of the investments, and you'll be entitled to a charitable contribution deduction for the full value of the securities. The charity you choose must be able to accept in-kind transfers of the particular investments. Don't wait until the end of December to transfer such funds as it takes several days to complete such transactions.

3. **Minding Capital Gains**

Actively managed mutual funds might make robust distributions of capital gains this year, generating a tax liability for anyone holding them in a taxable investment account. If you're a mutual fund investor, I recommend familiarizing yourself with their estimates of capital gains distributions before year-end. If you find that your investment funds are generating meaningful gains, consider adjusting your payroll withholding or setting aside funds to cover the higher capital gains tax coming your way. If you wish to sell your appreciated mutual fund shares ahead of the capital gains distributions to capture the higher share price, know that the sale itself will also generate capital gains tax. Here's where the practice of tax-loss selling, the strategy of selling your losing securities to offset any realized capital gains, becomes an effective tool for reducing taxes throughout the tax year.