

ALERT

YEAR-END ACTION ITEMS FOR 2017 TAX REFORM

Immediate action may be required!

The House recently passed the final version of the Tax Cuts and Jobs Act, clearing the way for President Trump to sign the new \$1.5 trillion tax bill into law. Most of the bill's provisions are effective beginning in 2018, which gives taxpayers a relatively short period of time to take advantage of certain favorable tax rules that are soon set to expire. Below are a few "*Action Items*" that individual taxpayers should consider taking before this year's end:

MORTGAGE INTEREST -- Under the new law, the mortgage interest deduction will be limited to \$750,000 of home acquisition indebtedness starting in 2018. However, taxpayers whose mortgages were issued before the December 15, 2017 cutoff date will be grandfathered in, and will still be able to deduct interest on up to \$1 million of mortgage-related indebtedness. Mortgage interest on second homes will also remain deductible, but subject to the \$750,000 limit. The bill will, however, prevent homeowners from using home equity loans to score tax-deductible financing. Interest paid on home equity loans that aren't considered home acquisition debt will no longer be tax deductible (i.e., use of HELOC to purchase a luxury vehicle). Note that home acquisition debt includes amounts borrowed to buy, build or substantially improve a main or secondary home.

- *Action Item* – For those grandfathered in, stay where you are and consider refinancing your mortgage debt instead (new loan cannot exceed the amount refinanced). For others, consider making a capital improvement to your home instead of moving.

STATE AND LOCAL TAXES -- Under the new law, individuals will only be allowed to deduct State, local, and foreign property taxes and State and local sales taxes *when paid or accrued in carrying on a trade or business*. The new law generally disallows the deduction for individual State and local income taxes. The bill will, however, provide an exception, so that individual taxpayers may *elect* to deduct sales, income, or property taxes up to \$10,000 (\$5,000 for a married taxpayer filing a separate return).

- *Action Item* – Those who will itemize deductions for 2017 and do not expect to pay Alternative Minimum Tax (AMT) in 2017, should consider paying any unpaid 2017 state and local estimated income taxes before year-end.
- *Action Item* – Do not rush to prepay your 2018 state and local income taxes! If you make a payment before year's end for State and local income tax due in 2018, the payment may be treated as if made in 2018 and your deduction will be limited



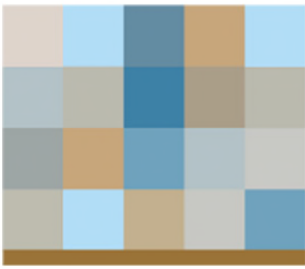
Robert M. Finkel



Laurie B. Kazenoff



Michelle E. Espey



STRENGTH IN PARTNERSHIP™

ALERT

This Alert was written by Robert M. Finkel, Laurie B. Kazenoff, and Michelle E. Espey.

Mr. Finkel is a partner of the firm where he serves as co-chair of its Tax Practice Group. He concentrates his practice on the areas of individual and business taxation including tax controversy and tax litigation

Ms. Kazenoff is a partner of the firm where she serves as co-chair of its Tax Practice Group. The scope of her practice includes tax controversies involving the Internal Revenue Service and New York State Department of Taxation on behalf of individuals, estates, partnerships, and corporations.

Ms. Espey is counsel to the firm and concentrates her practice on various aspects of tax law, business tax planning, state and local taxation, and tax controversy matters.

Moritt Hock & Hamroff LLP is a broad based commercial law firm with more than 70 lawyers and a staff of patent agents and paralegals. The firm's practice areas include: alternative dispute resolution; commercial lending & finance; construction; copyrights, trademarks & licensing; corporate & securities; creditors' rights & bankruptcy; cybersecurity; employment; equipment & transportation leasing and finance; healthcare; landlord & tenant; litigation; marketing, advertising & promotions; mergers, acquisitions & private equity; not-for-profit; patents; real estate; tax; and trusts & estates.

Attorney Advertising

or disallowed. It is not yet clear if this approach will change before the new bill is signed into law.

□ **Action Item** – You may be able to deduct April school taxes paid in 2017 for 2018 if you have already received your bill and your local authority permits such payment. However, most property owners cannot pay their 2018 *general property taxes* though prior to the January 1, 2018 due date. Nassau County's Administrative Code, for example, expressly prohibits the payment of general taxes in the year prior to the one in which they are due. Be sure to check with your local jurisdiction to see what restrictions may apply.

CHARITABLE DEDUCTIONS – Under the new law, the standard deduction will nearly double (to \$12,000 for a single taxpayer and \$24,000 for a joint return). This, together with the limitation on the deduction for state and local taxes, will result in more taxpayers using the standard deduction in 2018 and later years.

□ **Action Item** – Consider accelerating charitable contributions to 2017 to the extent you will not be limited by AMT.

ORDINARY INCOME -- Although seven (7) tax brackets will remain under the new bill, the income ranges for each bracket will be adjusted. As a result, many taxpayers will be subject to lower marginal tax rates beginning in 2018.

□ **Action Item** – Consider deferring the recognition of ordinary income to 2018, where possible. Note the effect of limitations on the deductibility of state and local taxes.

LIKE-KIND EXCHANGES – The proposed bill will limit like-kind exchanges treatment to exchanges of real estate held for investment or used in a trade or business.

□ **Action Item** – Like-kind exchange of other types of assets that are already in the works (such as personal property, artwork or collectibles) will need to close before December 31st.

QUESTIONS? – The new law is complicated.

□ **Action Item** – Call us! We can also be reached by email at: **Robert Finkel** rfinkel@moritthock.com; **Laurie Kazenoff** lkazenoff@moritthock.com; and **Michelle Espey** mespey@moritthock.com.

This Alert is published solely for the interests of friends and clients of Moritt Hock & Hamroff LLP for informational purposes only and should in no way be relied upon or construed as tax and/or legal advice. ©2017 Moritt Hock & Hamroff LLP