

TAX PLANNING 2018

How will your tax situation
be different in 2018?

What is the effect of the new
tax law changes on your situation?



By Christine Messmer, M.S.F., CFP®

This is the perfect time of year to do tax planning, and planning ahead provides the greatest opportunities and benefits to you. Even before considering the new tax law changes; determine if there will be any change to your income and deductions this year versus last year.

For example, in Tax Year 2017, did you have a large capital gain or loss, sell a rental property for a one-time gain, get a one-time taxable distribution, or did you make a deductible retirement plan contribution? Are you scheduled to make estimated tax payments based on last year's income even though this year may be completely different? Will you begin to take social security this year, or will you begin to take an IRA required distribution because you are 70.5 years of age? Has your status changed from single to married or from married to single? So many considerations before even looking at the impact of tax reform.

In 2017, marginal tax rates were: 10%, 15%, 25%, 28%, 33%, 35% and 39.6 percent. In 2018, our new marginal tax rates are: 10%, 12%, 22%, 24%, 32%, 35% and 37 percent.

The taxable income brackets are also different, one example for married persons:

2017: Married filing jointly with taxable income (after adjustments and deductions) between \$75,900 to \$153,100 - Tax Due \$10,452.50 + 25% of amount over \$75,900

2018: Married filing jointly with taxable income between \$77,400 to \$165,000 - Tax Due \$8,907.00 + 22% of amount over \$77,400.00

Another change is the standard deduction which has increased, for example, if you are single your standard deduction increases from \$6,350 to \$12,000, and if you are married filing jointly, it increases from \$12,700 to \$24,000. There is an additional deduction if you are blind or over age 65 and that amount has increased a little from last year.

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Many taxpayers will no longer need to itemize deductions, since the standard deduction is higher for taxpayers. Where do you stand with regard to deductions? One thing that we all lose is the personal and dependency exemption which was \$4,050 in 2017.

Taxpayers will still be able to deduct student loan interest, charitable contributions, and mortgage interest with some modifications. However, some tax deductions are limited or eliminated depending on a taxpayer's adjusted gross income (AGI), for example, unreimbursed medical and dental expenses must exceed 7.5 percent of your AGI in order to get a deduction.

Early tax planning preferably with your CPA, a qualified tax professional, may help you lower your taxes or at least take advantage of opportunities to make the necessary adjustments early in the year. Some CFP® practitioners are able to handle the average person's tax planning, but if you have a more complicated situation it is certainly advisable to meet with a CPA. An even better idea is a collaboration with your planner and accountant which is something my clients really seem to find valuable and informative.

Furthermore, tax planning provides opportunities to address retirement planning. By contributing more to your pre-tax 401(k) or 403(b) or other qualified company plan, you will lower your Federal taxable income. In addition, you may be able to do a deductible IRA which is an adjustment to income. Tax planning will potentially benefit you in two ways - lowering your taxes and helping you to saving more toward retirement.

The bottom line - consider doing tax planning early in order to lower your income taxes or to at least allow you to know your situation better giving you sufficient time to make adjustments.

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