TAXES
Preview 2018 Taxes

Are You Prepared For The Tax Law Changes?

Advisors offer eight strategies you can start thinking about now

BY BLOOMBERG NEWS

The federal tax overhaul put in place by Republicans has produced an unusual show of bipartisanship now that tax season is here: We are a nation united in befuddlement.

One bit of confusion to dispel quickly: The changes don't affect taxpayers for the 2017 filing season, which officially began Jan. 29 when the Internal Revenue Service accepted its first returns.

Tax preparers and financial advisors are girding for a barrage of questions from clients about what they should do right now. Below are some early thoughts from wealth managers on strategies taxpayers can start thinking about to avoid unpleasant surprises a year from now.

1. Preview your 2018 taxes

Advisors suggest having an accountant run mock 2018 returns after this year's forms are finished. TurboTax's TaxCaster tool can forecast a 2018 tax refund based on the new law. H&R Block preparers can also preview the new tax law's impact on next year's return.

2. Rework your withholding

The new law means the W-4 you filled out, however many years ago, may need to be recalibrated. The IRS on Feb. 28 released an updated withholding calculator and revised W-4 form. If workers leave their W-4s as is, they could wind up withholding too little, which can bring penalties, or they may get a smallerthan-expected refund next year.

3. Watch for SALT workarounds

A big change that could affect many taxpayers is the tax overhaul's controversial cap on state and local income tax (SALT) deductions, a provision Democrats have labeled a war on blue state Americans. The deduction, which used to be unlimited, will be capped at $10,000 next year.

4. Bunch up your donations

To try to get around the new SALT limit, a strategy that advisors suggest for people who regularly donate to charity is to bunch into one year what they would have given over multiple years. For those who itemize, charitable donations remain deductible on federal returns and can help lift married taxpayers who file jointly above the $24,000 standard deduction hurdle.

5. Home equity loan deductions

The deductibility of interest on home equity loans and lines of credit is a big area of confusion, said Tim Steffen, director of advanced planning for Baird Private Wealth Management. The new tax law lowered the amount on which interest expense on so-called "acquisition indebtedness" could be deducted — from $1 million to $750,000 for new loans made after Dec. 14, 2017. It also eliminated the interest deduction on loans that are not used to 'buy, build or substantially improve' a home, he said.

6. New college savings plan uses

The new tax law expands the allowable use of tax-exempt 529 college savings plans for education costs that accrue while your child is between kindergarten and high school graduation. But while some states automatically follow the federal code, others decouple from certain parts of it. So be careful.

7. Run your retirement numbers

A question Scott Bishop of STA Wealth Management is hearing is whether the tax law does anything good or bad for a client's retirement strategy. For those retiring before age 70-1/2, lower tax rates could present a reason to convert a standard pretax IRA into a Roth IRA, which consists of after-tax money. Or clients may consider taking distributions from standard IRAs, which they can tap without penalty starting at age 59-1/2, to take advantage of lower tax brackets and avoid a "tax time bomb" of having to take large required minimum distributions while in retirement.

8. Finally, just breathe

"You can get your knickers in a knot and worry about something no one knows enough about yet, or you can chill and prepare your questions and concerns for when the answers surface," said Jon Ten Haagen, of Ten Haagen Financial Group. "Breathe in, breathe out, and repeat as necessary until your heart rate is back down to normal."