Insights on The Tax Cuts and Jobs Act

December 2017

After a stunningly swift series of negotiations, major comprehensive tax legislation is on the precipice of being signed. The Tax Cuts and Jobs Act will result in substantive reform for corporations, including the reduction of the top corporate tax rate from 35% to 21% and the elimination of the Corporate Alternative Minimum Tax. On the individual side, the legislation will likely lead to more complexity, and related planning opportunities, particularly in the high net worth space.

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Chief Executive Officer

As you may suspect, we have been actively following the House and Senate versions of tax legislation as they made their way through the Conference Committee. When we consider what is most important for you as it pertains to your planning, we think it is relevant that you have information regarding the following topics:

Thoughts on Remaining 2017 Planning

As a current Heritage Wealth client, you are likely aware that we continuously plan for you with an outlook to maximize your wealth by minimizing tax expense over multi-year periods of time. This year that has been particularly important. We have been considering the potential impact of proposed legislation for our clients with the ongoing planning we have been doing as year-end approaches. Two of the more common planning components involve:

State and local tax (SALT) deductions

- The majority of our clients will lose some or all of their ability to deduct state and local taxes after 2017. Hopefully you are aware that the timing of these payments has always been on our radar as a planning consideration. However, in the past this issue has primarily been a timing consideration. Underpaying deductible SALT in 2017 could result in a permanent loss of the deduction. Our advice for the majority of clients would be to prepay any remaining state and local taxes.
- Over the years, many of you have heard our caveat to the above advice if you are currently paying Alternative Minimum Tax (AMT). We have historically attempted to manage your AMT by potentially putting off the payment of SALT until the subsequent year. At this juncture with the potential permanent loss of these deductions, even if you know or suspect you are currently in AMT you may still choose to make the payment in 2017. It is unlikely that the payment would negatively affect your situation and it may actually help at the margin by paring back other taxes such as the Medicare surtax.
- The final version of the tax legislation includes a provision that would disallow a deduction in 2017 for any prepayment of 2018 state and local income taxes.

Funding Current Charitable Commitments

- We have the privilege of working with a philanthropically engaged client base. In the case of those of you with existing, multiple year charitable commitments, you may consider pulling forward your funding of these commitments to 2017 if it is likely you will be in a lower tax bracket in 2018.
- The above would also be true for anyone that has clarity on their philanthropic plans for the future combined with an interest in making those payments this year rather than in the future to lock in potential savings.
- Please note we are not advocating a complete change in your philanthropic planning. We are simply suggesting that if there are known future events, consideration be given to the benefits of an earlier payment.
- As always, long term appreciated stock is a great way to fulfill charitable donations as neither you nor the non-profit will have a tax obligation related to the gain. Please also keep in mind that there are Adjusted Gross Income limitations on the current deductibility of charitable donations.

- ***Although many individuals will be in a lower bracket, not all of our clients will find themselves in that position***. For instance, we have a number of clients in retirement who reach a 0% bracket. Many others have effectively had a flat tax for years, as their taxable income is comprised of capital gains and qualified dividends.

HWA Communication Strategy regarding Tax Cuts and Job Act

Once the tax act has been officially signed into law, we plan to send out a comprehensive roadmap that includes planning opportunities. We believe there will be enough interest in the impact of this legislation that extends beyond the tax planning opportunities. It is our intent to hold an event in the New Year to cover the tax act as well as a market review. Stay tuned for more information.