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Dear clients and colleagues:

Congress has just enacted a major tax law (the "New Tax Act"), which will make fundamental changes in the way you, your family and your business calculate your federal income tax bill, and the amount of federal tax you will pay. Most of the changes will go into effect in 2018, and many of the changes will require additional guidance from the Treasury in order to fully understand all of the potential impacts which the New Tax Act may have on your 2018 taxes.

However, there's still a narrow window of time before year-end to soften or avoid the impact of crackdowns and to best position yourself for the tax changes that may be heading your way. Here's a quick rundown of last-minute moves you should think about making.

Lower Tax Rates Coming. The New Tax Act will reduce tax rates for many taxpayers, effective for the 2018 tax year. Additionally, many businesses, including those operated as pass-through entities (sole proprietorships, partnerships and S Corporations), may see their tax bills cut. In many cases, the smart move will be to take advantage of lower tax rates next year by deferring income into next year. However, taxpayers who expect to lose significant deductions in 2018 (see below) should tread carefully in this area and weigh whether they are, in fact, likely to see lower tax rates in 2018 before they decide to defer income. If you want to defer income into 2018, some possibilities follow:

- If you are about to convert a regular IRA to a Roth IRA, postpone your move until next year. That way you'll defer income from the conversion until next year and have it taxed at lower rates.

- If you converted a regular IRA to a Roth IRA earlier in 2017, but would like to defer income from the conversion into 2018, you can unwind the Roth IRA conversion by doing a recharacterization by making a trustee-to-trustee transfer from the Roth to a regular IRA. This way, the original conversion to a Roth IRA will be cancelled out. But you must complete the recharacterization before year-end. Starting next year, you won't be able to use a recharacterization to unwind a regular-IRA-to-Roth-IRA conversion.

- If you run a business that renders services and operates on the cash basis, the income you earn isn't taxed until your clients or patients pay. If you hold off on billings until next year (until so late in the year that no payment will likely be received this year), you will likely succeed in deferring income until next year.

- If your business is on the accrual basis, deferral of income till next year is difficult but not

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impossible. For example, you might (after due regard to business considerations) postpone completion of a last-minute job or defer deliveries of merchandise until next year (if doing so won't upset your customers). Taking one or more of these steps would postpone your right to payment (and the accrual of taxable income) until next year. Keep in mind that the rules in this area are complex and may require a tax professional's input.

- The reduction or cancellation of debt generally results in taxable income to the debtor. If you are planning to make a deal with creditors involving debt reduction, consider postponing action until January to defer any debt cancellation income into 2018.

Again, if you are a high income taxpayer who might actually see their taxes rise in 2018 (due to the loss of deductions), you will want to carefully consider all of your options (including accelerating both income and deductions into 2017) before taking action.

Larger Standard Deduction In Exchange For Disappearing Deductions. Beginning next year, the New Tax Act will repeal or reduce many popular tax deductions in exchange for a larger standard deduction (e.g., $12,000 for individual filers, $24,000 for joint filers). Here's what you can do about this right now:

- The itemized deduction for charitable contributions won't be chopped. But because most other itemized deductions will be eliminated in exchange for the larger standard deduction, charitable contributions after 2017 may not yield a tax benefit for many taxpayers because they won't be able to itemize deductions. If you think you will fall in this category, consider accelerating your charitable giving into 2017.

- Individuals and married couples (as opposed to businesses) will only be able to claim an itemized deduction of up to $10,000 ($5,000 for a married taxpayer filing a separate return) for the total of (i) state and local property taxes; and (ii) state and local income taxes. To avoid this limitation, pay the last installment of estimated state and local taxes for 2017 no later than Dec. 31, 2017, rather than on the 2018 due date. But don't prepay any state and local income tax bill taxes that will be imposed on 2018 income. The New Tax Act says such a prepayment of your 2018 state and local income tax bill won't be deductible against your 2017 income (creating a trap for the unwary taxpayer as they file their 2017 tax return). However, Congress only forbade prepayments for state and local income taxes, so a prepayment of your 2018 property taxes on or before Dec. 31, 2017, to generate a 2017 deduction is still OK.

- The New Tax Act temporarily boosts itemized deductions for medical expenses. For 2017 and 2018, medical expenses can be claimed as itemized deductions to the extent they exceed a floor equal to 7.5% of your adjusted gross income (AGI). Before the New Tax Act, the floor was 10% of AGI (except for 2017, where taxpayers aged 65-or-older could take advantage of a 7.5% of AGI floor). But keep in mind that next year many individuals will not be able to itemize deductions because, for post-2017 years, many of their other itemized deductions will be eliminated and their total itemized deductions may not exceed the increased standard deduction. If you are able to itemize deductions in 2017 but don't expect to be able to itemize in 2018, consider accelerating last-minute "discretionary" medical expenses into this year. For example, before the end of the year, get new glasses or contacts or see if you can pre-pay medical expenses for qualifying medical procedures or services you have scheduled for early 2018.

- However, before making any accelerated payment of state and local taxes, including property taxes, medical expenses or other itemizable expenses (other than charitable donations), pay close attention to your alternative minimum tax ("AMT") situation. If you are already subject to AMT, accelerated payment of itemizable expenses (other than charitable donations) will not reduce your 2017 tax liability.

Other Year-End Income Tax Strategies. Here are some other last minute moves that can save tax dollars in view of the New Tax Act:

- The New Tax Act substantially increases the alternative minimum tax (AMT) exemption amount, beginning next year. There may be steps you can take now to take advantage of that increase. For example, the exercise of an incentive stock option (ISO) can result in AMT complications. If you hold any ISOs, it may be wise to postpone exercising them until next year. In addition, the benefits of various deductions (e.g., depreciation and the investment interest expense deduction) will be curtailed if you are subject to the AMT. If the higher 2018 AMT exemption means you won't be subject to the 2018 AMT, it may be worthwhile (via tax elections or postponed transactions) to push such deductions into 2018.

- Like-kind exchanges are a popular way to avoid current tax on the appreciation of an asset, but after Dec. 31, 2017, such swaps will be possible only if they involve real estate that isn't held primarily for sale. If you are considering a like-kind swap of other types of property, do so before year-end. The New Tax Act says the old, far more liberal like-kind exchange rules will continue apply to exchanges of personal property if you either dispose of the relinquished property or acquire the replacement property on or before Dec. 31, 2017.

- For decades, businesses have been able to deduct 50% of the cost of entertainment directly related to or associated with the active conduct of a business. For example, if you take a client to a nightclub after a business meeting, you can deduct 50% of the cost if strict substantiation requirements are met. But under the New Tax Act, there will be no deduction for such expenses paid or incurred after Dec. 31, 2017. If you've been thinking of entertaining clients and business associates, do so before year-end.

- The New Tax Act suspends the deduction for moving expenses after 2017 (except for certain members of the Armed Forces) and also suspends the tax-free reimbursement of employment-related moving expenses. If you're in the midst of a job-related move, try to incur your deductible moving expenses before year-end, or if the move is connected with a new job and you're getting reimbursed by your new employer, press for a reimbursement to be made to you before year-end.

- Under current rules, alimony payments generally are an above-the line deduction for the payor and included in the income of the payee. Under the New Tax Act, alimony payments will not be deductible by the payor or includible in the income of the payee, generally effective for any divorce decree or separation agreement executed after 2017. If you're in the middle of negotiating a divorce or separation agreement, it may not be possible to wind up the process before year end. If you cannot wind up the process by year-end, you will need to consider the changing tax consequences as you finalize your divorce or separation agreement.

Gift And Estate Tax Strategies. Finally, the New Tax Act will double the amount of the estate and gift tax credit in 2018, making it possible for a taxpayer to shelter up to $11,200,000 (or $22,400,000 for a married couple) of assets upon transfer by gift or upon death after 2017. In addition, the annual gift tax exclusion will rise from $14,000 per donee to $15,000 per donee in 2018. Taxpayers who want to take of gift and estate tax planning opportunities should consider the following:

- Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby save gift and/or estate taxes. The exclusion applies to gifts of up to $14,000 made in 2017 to each of an unlimited number of individuals. You can't carry over unused exclusions from one year to the next.

- High net-worth individuals who own a business, real estate ventures or other investment entities also got some welcome news this year. The Treasury's proposed regulations that may eliminate or reduce available valuation discounts has been withdrawn, and no further regulatory action is expected at this time. High-net worth individuals (those who might an estate tax at death) may want to consider gifting and estate tax strategies in 2018 to take advantage of the higher amount of estate and gift tax and the continued availability of valuation discounts.

Year-End Planning Moves for Trusts and Estates: Finally, fiduciaries for irrevocable trusts and estates should consider whether to make income distributions to beneficiaries to minimize income taxes.

- Under federal income tax laws, irrevocable trusts and estate pay income tax at a highly-compressed tax schedule and (for 2017) reaches the top marginal income tax rates of 39.6% once taxable income exceeds $12,500. In addition, irrevocable trusts and estates pay capital gains tax at the top rate of 20%, and further pay the additional Medicare surcharge tax of 3.8% on "unearned income" (e.g., dividends, interest, royalties, and rents) once taxable income exceeds $12,500. The New Tax Act reduces the tax brackets slightly, but irrevocable trusts and estates will still hit the top marginal income tax rate (37% for 2018) once taxable income exceeds $12,500.

- Irrevocable trusts and estates are entitled to a "distribution deduction" for taxable income earned in the specified year, as long as the taxable income is distributed by the 5th day of the 3rd month of the following year (March 5, if the irrevocable trust or estate is using a calendar year). In this event, the taxable income is shifted from the irrevocable trust or estate's fiduciary income tax return to the beneficiaries' personal tax return for the specified year, where the taxable income may be taxed at lower rates. Fiduciaries need to act quickly once their 2017 tax information is available to decide whether it is advantageous to distribute taxable income by March 5.

Please keep in mind that I've described only some of the year-end moves that should be considered in light of the New Tax Act. If you would like more details about any aspect of how the proposed legislation may affect you, please do not hesitate to call.

Very truly yours,

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