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Want to Cut Your Tax Bill? Then Keep Reading and Call Your CPA

By
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- Trump tax law offers new opportunities for the wealthy to save
- Other strategies focus on getting around limits on deductions

President Donald Trump pledged that his tax law would kill off breaks and complex loopholes for the wealthy. Instead, the overhaul has ushered in a new generation of maneuvers that taxpayers can exploit before Dec. 31 to minimize next year's bills.

Some tactics capitalize on provisions in the law that provide benefits, such as a generous break for owners of pass-through entities like partnerships and a higher exemption amount for the estate tax. Other strategies are aimed at sidestepping new limits in the law, including the cap on state and local tax deductions.

"The number of clients asking about things that they've read about has increased 10-fold," said Brad Sprong, national tax leader in accounting firm KPMG's private markets group. "The tax guys are cool again. We're no longer the geeks in the corner."

The IRS is still issuing guidance to explain and provide details on the law, which means tax advisers have some leeway -- and uncertainty -- in interpreting the legislation. While the agency generally gives taxpayers a break if they're reasonably applying the law and acting in good faith, it could still ultimately invalidate some tax-saving transactions.

And for taxpayers who miss out on making any changes before the end of the year, there may be some good news ahead: next year's politically divided Congress is unlikely to make any large-scale modifications to the 2017 law, so these moves could still be viable.

Bunching Expenses

Owners of partnerships, limited liability companies and other pass-throughs received a large gift in the tax law -- a 20 percent deduction on their taxable income. But that write-off is subject to limitations starting at incomes of $315,000 for married couples. To get around that, pass-through

owners can strategically "bunch," or ramp up their expenses this year, which will help to lower their income and allow for the full deduction, according to Ed Reitmeyer, regional partner-in-charge of the tax and business services at accounting firm Marcum.

For example, firms planning to buy more equipment and make upgrades to their facilities could do it all this year instead of spreading it out over several years. Additionally, companies could give higher bonuses this year to maximize wages paid out -- since the 20 percent deduction can be limited if an employer doesn't pay a certain amount in employee wages.

Service professionals, such as doctors, are generally prohibited from taking the deduction entirely if they're married and make more than $415,000. Some of those businesses could split themselves in two -- one for the service part and the other for the manufacturing component, for example for a medical device -- to separate the service income ineligible for the deduction. If the business is reorganized before the end of the year, the IRS will still allow the deduction as if it'd been separated for the whole year, Sprong said.

Non-Grantor Trusts

One of the most bitterly opposed parts of Trump's tax law was the $10,000 cap on so-called SALT deductions, for state and local taxes. Some tax accountants have helped clients in high-tax states set up special trusts that can help to get around the limit. Here's how it works: clients transfer their homes into limited liability companies, and then transfer the interests in the LLCs into non-grantor trusts, and each trust takes the maximum $10,000 deduction. So if you have a $50,000 property tax bill, you can set up five separate trusts, with each taking the $10,000 deduction.

The strategy has some drawbacks -- setting up the trusts can be costly and the homeowner would need to put enough income-generating assets into the trust to balance out the $10,000 deduction. The IRS could also move to block the strategy. But for top-earners living in high-tax states, the savings could well justify the costs and the hassle, accountants say.

Get Divorced ASAP

The overhaul eliminates the deductions for alimony payments for divorces finalized starting in 2019. For many wealthy couples, reaching a deal by Dec. 31 could mean tens of thousands of dollars in tax savings every year. The richer you are, the more homes, possessions, investments and businesses there are to fight over. The result is often expensive negotiations that stretch on for years, as each party tries to inflict maximum damage on the other.

If you're just starting divorce proceedings now, ending a marriage by year end will be difficult, if not virtually impossible. Still, there may be a workaround: if a settlement agreement, which often includes alimony terms, is reached by the Dec. 31, many divorce lawyers said that would likely be sufficient to get the alimony tax break.

IRA Donations

Those who are aged over 70 1/2 must start taking mandatory distributions from their individual retirement accounts, which generate taxable income for the recipient. However, making charitable donations of as much as $100,000 directly from IRAs checks the box for a mandatory distribution -- and avoids the extra taxable income.

Another perk of the IRA donation is that older taxpayers don't have to itemize deductions on their taxes to get the benefit. More individuals are expected to take the new, expanded standard deduction -- $24,000 for a couple -- set by the tax law, rather than continue to itemize.

Still, the donation doesn't qualify for a charitable deduction since the IRS considers getting a deduction on untaxed income to be double dipping.

Opportunity Zones

The tax law creates special tax breaks in so-called Opportunity Zones, economically disadvantaged areas where the U.S. government is trying to promote investment. Investors can take proceeds that would be subject to capital gains taxes -- such as those from the sale of a business or stock -- and put them into Opportunity Zone funds to defer and potentially reduce those taxes. They can also avoid taxes on the funds' gains completely.

Opportunity Zone designations are good for 10 years, but time is of the essence for investors who've recently sold their stock or business: the rules say proceeds have to be put in a fund within six months to qualify. And Reitmeyer added that there are too few Opportunity Zone funds to meet the demand by investors.

Dynasty Trusts

The ultra-rich have been turning to a key tool -- the dynasty trust -- to take advantage of the law doubling the amount that can be passed to heirs without being subject to estate and gift taxes. The new threshold of $22 million for married couples means the trusts can be funded tax-free with assets up to that amount. Amounts over exemption levels are taxed at 40 percent.

The nation's top wealth planners have said they're seeing increased interest in the trusts as clients look to capitalize on the additional $11 million they can now easily shift over. Some families want to transfer money out of their estates into the trusts in case Democrats take back control of Congress and pull the limits back down, while others say it's best to move assets before they appreciate even more.

Some had been worried that come 2026, when the higher exemption amounts are set to expire, the IRS might attempt to collect taxes on gifts that were already made under the doubled exemptions. But the IRS said in November that it won't seek such retroactive taxes.

Taxpayers can also give each family member as much as $15,000 this year without using up any of their estate and gift tax exemption.

— With assistance by Ben Steverman, Lynnley Browning, and Suzanne Woolley