The Rudolph Report

www.rudolphcpa.com Winter meetings 2017

To all our clients:

There are currently two legislative tax proposals in Congress. The House passed its version, and the Senate version is pending a vote. Certain senators have decided to postpone a vote to leverage the opportunity for a few sweeteners to the deal, sort of like a player-to-be-named-later. (Fun Fact: former Cub reliever Dickie Noles was once traded to Detroit for a player to be name later who was later revealed to be … Dickie Noles. Yes, he was the first player to be traded for himself).

Because Congress has not completed the tax legislation, we don't know the outcome yet. This letter is packed full of possibilities rather than certainties. You'll find terminology such as might, may, and could rather than graduate school language such as indubitable, irrefutable, and Professor Poopy Pants.

The legislation, if passed, possibly may (see!) affect you. Some of the items may compel you to make decisions before 2017 ends. There is a lot of material, and, in this newsletter, we've reduced the legislation from 400 pages to the size of a postcard (which measures 8 ½ by 11 when kneaded out). As the tax legislation moves along in December, please feel free to call our office if you want to discuss your situation. We strongly advise that you call us before taking any tax maneuvers in 2017.

In the meantime, let's hope that Theo Epstein can perform a "Festivus Miracle" by bringing a pennant back to the Northside.

Chris Rudolph CPA

The Process

Upon passage in the Senate, the bill from each chamber goes to committee to be melded into one bill. Each chamber would then vote on it again. If the bill passes with a simple majority, it goes to the president for a signature and an incoherent tweet.

2017 possible actions

The $7,500 credit for electric cars is on the chopping block, so if you are considering a purchase, the clock is ticking. Personal exemptions might be eliminated in 2018, leaving your cheap husband a few weeks to bribe the OBGYN into inducing you into labor. State and real estate taxes may not be deductible in their entirety for 2018. Therefore, if you plan on paying a 4th quarter estimated tax to the state, you may want to call us to discuss making that payment in December of 2017 for the federal tax deduction. Keep in mind that the 2017 AMT might negate any benefit in doing so. The AMT risk also applies in pre-paying your real estate taxes. Some people might benefit from paying their 2018 property taxes early in order to get the deduction in 2017.

Charitable contributions will continue to be an itemized deduction in 2018. However, the standard deduction may double. Therefore, it is plausible that your 2018 charitable contribution will not yield a tax benefit. You can speak with your investment advisor about donor advised funds which address this problem. You can get a 2017 charitable deduction by contributing, in advance, your 2018 charitable amounts. Then the fund can disperse the cash to the charity in 2018.

Rudolph CPA
1870 W. Winchester Rd Suite 113 Libertyville, IL 60048
(847) 362-1050 email: info@rudolphcpa.com (847) 362-1380 fax

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2018 projected changes

Graduate **students** might have to pay tax on their scholarships. Students would no longer be able to deduct tuition, utilize EE bonds in a tax-free manner, or deduct their student loan interest upon graduation. Teachers may no longer be able to deduct their classroom expenses of up to $250. See, education is priceless.

Homeowners will likely only be able to write off interest on mortgage debt up to $500,000. Also, the deductions for property taxes could be reduced or eliminated. For married filers the sale of a personal residence may be taxable if your income is over $500,000. The holding period for your home could be for five years rather than two. Finally, mortgage interest on a second home or on a home equity loan might not be deductible.

Employees might no longer be able to participate in flex spending plans for day care or to write off work related expenses such as travel, cell phones, or gifts to colleagues (even a vintage Vinny Barbarino doll for your boss). Additionally, employer reimbursements for higher education might now be taxable. Currently, your employer can pay for $5,250 of tuition as a tax-free benefit to you.

Alternative Minimum Tax will likely no longer be assessed in 2018. **AMT** is often a result of high deductions for state taxes and real estate taxes. These deductions could be erased, making the elimination of the AMT about as gratifying as the Pez candy from your husband's 1982 Mighty Mouse dispenser that guards his Castle Grayskull.

Wait, there's más

Corporations may have a flat tax of 20%. This consumes up to 97% of the tax savings in the legislation. If you own an S corporation, you might be able to exclude up to 17% of your income from tax. It has to be a non-service based business. Additionally, the Senate plan will mandate that 70% of your income is taxed at ordinary rates in a computation that is so complex that it relies on algorithms from the College Football Selection Committee.

Although legislation eliminates personal exemptions, it does increase the **child tax credit** to $1,650 for married people who earn up to $500,000. Additionally, there may be a family flexibility credit for people who are not qualifying children yet still live in your basement and eat cheesecake at the freezer.

Coverdell college savings accounts might be eliminated, leaving the 529 plans untouched. Those 529 plans would now permit you to withdraw money for private K-12 school.

The **tax brackets** can change. Expect fewer brackets, beginning with a base rate of 12%, a wider range of income for the 25% bracket, and the implementation of a 35% bracket around $280,000.

2017 tidbits

Mileage rates are 53 ½ cents for business and 17 cents for medical. Form 1095's are required if you had marketplace insurance. Obamacare remains fully implemented. Depreciation limits have not changed. Finally, **partnership returns** and S coprs are due March 15th in the midst of spring training.

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