



Dear Client,

Congress has (finally) passed the tax bill, and it was signed into law today.

We're providing you with this letter now in case you want to take advantage of year-end strategies to lower your taxes. (Be forewarned: There aren't many, and most taxpayers won't attempt these ideas. But they are all that the new law offers.)

First, here are the new law's key provisions that directly affect you:

- **Standard deduction:** In 2018, it rises to \$12,000 for individuals and \$24,000 for joint filers — almost double 2017's amounts. This means you might prefer to use the standard deduction for the 2018 tax year (remember, you file that return by April 15, 2019, not this coming spring) instead of itemizing deductions. If you use the standard deduction, you will no longer take a tax deduction for:
 - **State and local taxes:** Even those who do won't be able to deduct more than \$10,000.
 - **Mortgage interest:** For loans obtained in 2018, interest will be deductible only for loans up to \$750,000. And interest on home equity loans and home equity lines of credit will no longer be tax deductible — regardless of when you got the loan.
 - **Miscellaneous deductions:** Unreimbursed employee expenses, tax preparation fees and other costs will no longer be deductible starting on Jan. 1, 2018.
- **No more personal exemptions.**
- **Tax credits:** The Child Tax Credit rises to \$2,000.
- **529 plans:** You will be able to withdraw up to \$10,000 per year to pay for K-12 tuition. We generally don't recommend this idea, so talk to us before you do this.
- **Estate taxes:** Starting in 2018, you can leave \$11.2 million (\$22.4 million if you're married filing a joint return) to heirs without owing any federal estate taxes. Thus, few Americans will owe this tax.

As mentioned, there are a few opportunities to lower your 2017 and/or 2018 taxes — if you act by Dec. 31, 2017 (meaning, next Sunday). Sorry for the short notice, but Congress only passed the tax bill this week! So, you'll need to act quickly, and be sure to consult your tax advisor before taking any action. These opportunities are:

- **Pay your property, state and local income taxes now.** Since your 2017 tax bracket is likely to be higher than your 2018 bracket, paying deductible expenses now saves you more in taxes than paying later. Also, because you will be able to deduct a maximum of \$10,000 for state and local taxes in 2018, it may make sense to pay your 2017 state and local taxes now if your tax bill exceeds \$10,000 (since the entire cost can be deducted from your 2017 taxes).
- **Make 2018 charitable contributions before the end of 2017.** For the same reason, as above: Higher tax rates in 2017 than 2018 argue for this idea. Downsides: You must come up with the cash now, and your favored charity won't get a donation from you next year, potentially hurting its finances.



- **Refinance your mortgage.** If you have a home equity loan, consolidate it with your primary mortgage so that all the interest remains tax-deductible. You'll need to determine if the costs and new loan rate justify this move, so check with us first.
- **Roth conversions.** The new law prohibits "recharacterizations." This occurs when you convert your IRA to a Roth IRA and regret it later that same year. Currently, you can engage in a "do-over" and reverse the transaction. But starting in 2018, the ability to do this (called a recharacterization) is prohibited. We've always disliked the idea of Roth conversions, but if you did one in 2017, check with your tax advisor or us to see if you should recharacterize it by next Sunday.

For all the bill's complexity, there are remarkably few tax planning opportunities, and many of them are fairly obscure. We recommend you talk with your tax advisor before acting on any of these ideas, and of course, we are ready to help you.

Our best wishes to you and yours for a healthy, happy new year!

Regards!

A handwritten signature in black ink, appearing to read "Ric Edelman". The signature is stylized and fluid.

Ric Edelman

Founder and Executive Chairman
Edelman Financial Services

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