Weil, Akman, Baylin & Coleman, P.A
Certified Public Accountants & Business Consultants
201 West Padonia Road • Suite 600 • Timonium, MD 21093-2186
410-561-4411 • Fax 410-561-4586 • http://www.wabccpas.com

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Dear Valued Client or Friend:

Congress is enacting legislation that will fundamentally change the way you, your family and your business calculate your federal income tax. This legislation will also affect the amount of federal tax you will pay. Since most of the changes will go into effect in 2018, there's still time before year-end to soften or avoid the impact of crackdowns and to best position yourself for the tax breaks that may be heading your way. Here's a quick summary of last-minute moves you may consider.

Lower tax rates are coming. The Tax Cuts and Jobs Act will reduce tax rates for many taxpayers, effective for the 2018 tax year. Additionally, many businesses may see their tax bills cut.

The general plan of action to take advantage of lower tax rates in 2018 is to defer income into that year. Some deferral possibilities are as follows:

- If you are about to convert a regular IRA to a Roth IRA, postpone that move until next year in order to defer income from the conversion until 2018 and have that income taxed at lower rates.
- If you have already converted a regular IRA to a Roth IRA in 2017, you may wish to reevaluate that decision since the tax on the conversion may be subject to a lower tax rate next year. You can unwind the conversion to the Roth IRA by doing a recharacterization, which is 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. So if you postpone billings until either next year or until so late in 2017 that no payment will likely be received during 2017, 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 impossible. For example, you may, with due regard to business considerations, be able to postpone completion of a last-minute job until 2018, 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. As a result, the income from the job or the merchandise will not be recognized 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. So if you are planning to make a deal with creditors involving debt reduction, consider postponing that action until January in order to defer any debt cancellation income into 2018.

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Beginning in 2018, the Tax Cuts and Jobs Act suspends or reduces many popular tax deductions in exchange for a larger standard deduction. Here's what you can do about this right now:

- Individuals (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 (1) state and local property taxes; and (2) 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 in 2017 a state income tax bill that will be imposed for 2018. Congress has said that prepayment won't be deductible in 2017. However, Congress did not prohibit prepayments of property taxes, so a prepayment on or before Dec. 31, 2017, of a 2018 property tax installment is apparently OK.
- The itemized deduction for charitable contributions won't be chopped. But because most other itemized deductions will be eliminated in exchange for a larger standard deduction (e.g., $24,000 for joint filers), charitable contributions after 2017 may not yield a tax benefit for many because they won't be able to itemize deductions. If you think you will fall in this category, consider accelerating some charitable giving into 2017.
- The new law temporarily boosts itemized deductions for medical expenses. For 2017 and 2018 these 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 law, the floor was 10% of AGI (except that, for 2017, it was 7.5% of AGI for age-65-or-older taxpayers). But consider that many individuals in 2018 will claim the standard deduction because many itemized deductions have been eliminated. If you won't be able to itemize deductions after this year, but will be able to do so for 2017, consider accelerating "discretionary" medical expenses into this year. For example, before the end of the year, get new glasses or contacts, or see if you can squeeze in expensive dental work such as an implant.

There are some other last minute moves that can save tax dollars in view of the new tax law:

- The new law 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. So, if you hold any ISOs, it may be wise to postpone exercising those options until next year. Various deductions, such as 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 AMT in 2018, it may be worthwhile, by means of tax elections or postponed transactions, to postpone those deductions until 2018.
- Like-kind exchanges are a popular way to avoid current taxation on the exchange of appreciated assets. After December 31, 2017, these types of tax-deferred exchanges will be possible only if they involve real estate that isn't held primarily for sale. So if you are considering a like-kind exchange of other types of property, you should try to execute

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it before year-end. The new law states that the current 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 law, there's no deduction for those expenses if those amounts are paid or incurred after Dec. 31, 2017. So if you've been thinking of entertaining clients and business associates, do so before year-end.
- Under current law, alimony payments generally are an above-the line deduction for the payor and included in the income of the payee. Under the new law, alimony payments are not deductible by the payor or includible in the income of the payee. These rules are generally effective for any divorce decree or separation agreement executed after 2017. So if you're in the middle of a divorce or separation agreement, and you will be required to pay alimony, it would be beneficial for you to wrap things up before year end. On the other hand, if you expect to receive alimony, it would be beneficial for you to wrap things up next year.
- The new law suspends the deduction for moving expenses after 2017 (except for certain members of the Armed Forces). It also suspends the tax-free reimbursement of employment-related moving expenses. So if you're in the midst of a job-related move, try to incur your deductible moving expenses before year-end. If your 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 the end of 2017.
- Under current law, various employee business expenses, e.g., employee home office expenses, are deductible as itemized deductions if those expenses plus certain other expenses exceed 2% of adjusted gross income. The new law suspends the deduction for employee business expenses paid after 2017. So, it should be determined whether payment of additional employee business expenses in 2017 that would normally be paid in 2018 would provide an additional 2017 tax benefit. Also, now would be a good time to talk to your employer about changing your compensation arrangement. For example, your employer's reimbursing you for the types of employee business expenses that you have been paying yourself up to now and lowering your salary by an amount that approximates those expenses may result in those reimbursements not being subject to tax.

Please keep in mind that this letter has described only some of the year-end moves that should be considered in light of the new tax law. If you would like more details about any aspect of how the new law may affect you, please do not hesitate to call us.

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