TAX PLANNING: Income & Retirement

Understanding How The Tax Law Affects Income & Retirement Planning

By Lisa Detanna

Given the complexity of changes to the tax code of the United States, thanks to tax-reform legislation passed in late 2017, the sweeping changes and the impact they could have on each of us with regard to our income and retirement are not always easy to understand.

The new law included tax-rate cuts for individuals, corporations and pass-through businesses, and eliminates many individual and business deductions.

Here are a few tips we have compiled to help make sense of it all:

Retirement Saving

Retirement plan contributions: If you are paying less income tax, you could have more money to save toward retirement goals. As a result, you may be able to boost your pre-tax retirement savings and take advantage of an employer match.

Roth IRA Conversions: Although re-characterization of a Roth IRA conversion is no longer permitted, this doesn't mean you shouldn't consider a Roth conversion when it makes sense. For example: You anticipate a lower effective tax rate in retirement, or, alternatively, for wealth transfer planning to children or grandchildren.

Itemized Deductions

Interest on new home debt: If you are planning to purchase a home, consult with your tax advisor regarding the deductibility of any new or refinanced mortgage indebtedness.

Home equity loans: Interest is still deductible on home equity lines of credit used to buy, build or substantially improve the home that secures the loan. If you have home equity lines of credit used to finance other endeavors, you may want to evaluate repaying them, depending on rates and net cost.

Vacation homes: You may want to discuss with your tax advisor whether it makes sense to convert a vacation home into a rental property and possibly transform the deductibility of interest and taxes.

Limited casualty and theft-loss: Since theft and some casualty losses are no longer deductible – with some exceptions – and a tax benefit will likely be unavailable until 2025, you may wish to reconsider deductible levels on your liability insurance policies.

Alternative Minimum Tax

Goodbye AMT: Given the increased exemption and phase-out thresholds, as well as the elimination or limitation of certain itemized deductions, you may find you are no longer subject to the Alternative Minimum Tax (AMT).

Stock options: Corporate employees with vested and unexercised incentive stock options (ISOs) may benefit for the same reasons noted above. So, you may be able to exercise and hold larger numbers of these options, thus obtaining significant income tax savings by converting more ordinary income into long-term capital gain.

AMT credits: If you have AMT carryovers from 2017, you could find it much easier to recoup them given the higher exemption levels.

Domicile

Tax jurisdictions: People have long evaluated the benefits of changing their domicile to a more tax-friendly state, such as Florida, to avoid state income and/or estate taxes. This trend likely will continue, and the deduction limits on mortgage interest and state and local taxes may influence residents of states with high income tax rates, property taxes and property values to relocate to more tax-friendly states.

Divorce

Alimony: Since alimony is no longer deductible to the payor spouse, or taxable to the payee spouse, divorce, prenuptial and postnuptial agreements should address these changes, be completed before 2019, if possible, and contemplate the law's potential sunset on Jan. 1, 2026.

Future law changes: If you are seeking a divorce, consult with your legal counsel about including a provision that the divorce agreement can or must be renegotiated if the tax law changes again.