

KEEPING OUR CLIENTS INFORMED ON WEALTH AND SUCCESSION PLANNING ISSUES

For any questions or comments you might have regarding this newsletter or any other wealth and succession planning concerns, please feel free to contact:



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Should I Prepay My Property Taxes?

The Tax Cuts and Jobs Act (the “Act”) has now passed both houses of Congress and will be signed into law shortly. Over the past few days, I have received several calls about whether clients should prepay their property taxes, otherwise due in 2018, before December 31, 2017. This is because, under the Act, taxpayers who itemize their deductions will now see a limit for their state and local tax deduction (the “SALT deduction”) at \$10,000. For taxpayers in Illinois who itemize their deductions, are employed and own a home, this will have a substantial impact on their 2018 itemized deductions.

As the Act became closer to being passed into law, many tax professionals were recommending prepaying all SALT taxes, including prepaying state and local income taxes. Congress, within some of the final changes to the Act, closed this loophole with regard to state and local income taxes; however, this prohibition was not applied to the prepayment of property taxes.

Before you rush to your county treasurer to prepay your property taxes otherwise due in 2018, you should consider the following:

1. If you are or may be subject to the alternative minimum tax (“AMT”), you could find that the prepayment of your property taxes will provide no benefit to you in 2017, as property taxes are not a deduction to your AMT income.
2. It is not entirely clear how much you can prepay. Without a tax bill that is due and owing, some practitioners caution whether you can prepay 100% of your last year’s property taxes, or only the portion of your property taxes that is known and finite. Congress could also move to close this loophole after you may prepay your property taxes.
3. The standard deduction is almost doubling in 2018. If your itemized deductions were just above your standard deduction in 2016, chances are you may not be itemizing your deduction in 2018. This would mean that if you are itemizing your deductions in 2017 (but not in 2018) you may want to prepay your property taxes before year end because you will see no benefit for the SALT deduction in 2018 once you are no longer itemizing.

As always, each taxpayer’s situation is unique. You should consult your tax preparer before making this decision. Please feel free to contact me with any questions you may have.