Wealth Planning under the GOP Tax Reforms of 2017

With both chambers of Congress having passed the GOP's sweeping tax reform legislation, taxpayers are being tasked with the responsibility of understanding how proposed changes will impact them with year-end tax deadlines fast approaching. For your reference, the following has been prepared by Terry LaBant, J.D., Vice President and Senior Wealth Strategist at Calamos Wealth Management.

In light of this new legislation, taxpayers will have little time to act before year-end to improve their overall tax-planning picture over this year and next. The following will highlight the key items taxpayers will face as they fine-tune their plans this year ahead of the new laws they will face next year. It also will clarify some of the overlooked changes to the law that will arise.

Accelerate Deductions

Most planning discussions have revolved around whether to accelerate payment of items that may be less deductible or not deductible. This overview will provide some general considerations in this regard which will not apply to those subject to the Alternative Minimum Tax ("AMT") discussion below.

State and Local Income Taxes – The new legislation will limit all state, local and property tax deductions to $10,000 annually. Taxpayers who typically owe state and local taxes in April could pay those taxes early to maximize deduction under the current law. Taxpayers who likewise make fourth quarter estimated tax payments in January could pay those taxes this month for the same reason. Taxpayers cannot obtain a deduction this year for prepayment of next year's taxes, though, so this planning opportunity remains limited.

Property Taxes – As noted above, all state, local and property tax deductions will be limited to $10,000 per household annually. Taxpayers who live in states with high real estate taxes such as California, Connecticut, Illinois, Michigan, New Jersey, New Hampshire, New York, Ohio, Pennsylvania, Texas, Vermont and Wisconsin could pay their first 2018 property tax installment during 2017 to maximize deductibility this year. If subject to AMT, however, this prepayment will provide no benefit.

Miscellaneous Deductions – Miscellaneous, itemized deductions generally will not be available, so payment this year would benefit taxpayers now. If subject to AMT, however, this prepayment will provide no benefit.

Mortgage Interest – Under current law, taxpayers can deduct interest on mortgages up to $1 million and home equity interest on lines up to $100,000. Taxpayers will now be able to deduct interest on mortgages up to $750,000 and no home equity loan interest. Homeowners may benefit by paying off home equity lines through mortgage refinancing, but then again only up to the new $750,000 threshold by early next year.

Know Your AMT Status

The AMT represents a supplemental tax imposed by the IRS. It's calculated to bypass typical itemizations to arrive at a tax bill that essentially charges you the difference had itemized deductions not been applied. In other words, if a taxpayer would benefit "too much" from taking deductions, the IRS will calculate the tax without the deductions and increase the taxpayer's bill. The AMT has not been repealed under the new legislation.

For AMT purposes, taxpayers already lose the benefit of certain deductions, particularly miscellaneous and state and local income tax deductions. Other taxpayers become subject to the AMT as they increase deductions relative to income. So, taxpayers must consider the impact of AMT before accelerating payments and deductions into this year versus next year. In other words, taxpayers who are or will become subject to the AMT will not benefit from prepayment of deduction items discussed above.

*Unless otherwise specified, all deductions and limits are for taxpayers "married/filing jointly"

Charitable Deduction

Under current law, the charitable deduction is available for cash donations up to 50% of adjusted gross income ("AGI"). Now, the charitable deduction will be available for cash donations up to 60% of AGI.

Taxpayers may consider whether to accelerate charitable deductions this year or to defer some of them into next year. The answer to this question will depend upon whether a taxpayer will (1) have more income this year compared to next year or (2) pay more tax this year as compared to next year. Otherwise, the charitable gift deduction will continue to benefit taxpayers generally.

Timing of Income

Some taxpayers can control the timing of earned income between the end of one tax year and beginning of the next one. This decision will depend in part on the overall tax cost relative to available deductions under current law versus the new law as discussed above. This decision also will depend in part on whether the taxpayer receives income through a pass-through entity which will be entitled to the new 20% Qualified Business Income Deduction. If so, only 80% of pass-through entity income will be subject to normal, ordinary income tax rates next year up to certain limits. This deduction may lead affected taxpayers to defer payment of this year's earned income into next year.

Capital Gain and Loss Harvesting

Long-term capital gain rates will remain the same under the TCJA, but they will arise at specified levels of income instead of given income tax brackets. Despite this change, the long-term capital gains rates will reach taxpayers at essentially the same levels of income, so there is no unique planning concern around this item.

FIFO

Under earlier GOP tax plan proposals, taxpayers were scheduled to lose the choice of selling particular lots when liquidating a partial stock position. These earlier proposals would have required all taxpayers to sell partial stock positions on a "first in, first out" ("FIFO") basis. This proposal did not survive the final draft of the bill so taxpayers will still be able to sell partial stock positions on a selected lot basis.

Kiddie Tax

Under current law, children under age 19 (or full-time students under age 24) pay tax at two different rates, namely their marginal rate on earned income and their parents' marginal rate on passive income. Children will now pay tax on passive income based on trust income tax rates. This will subject children to the highest marginal tax rate (37%) on passive income over $12,500.

Education Loans and 529 Plans

Under the TCJA, student loan forgiveness in the event of death or disability will not be subject to discharge of indebtedness income.

The original House and Senate tax proposals would have eliminated a number of educational tax incentive benefits, including repeals of credits, student loan interest deductions, tax exclusions for tuition assistance and an end to future Coverdell Education Savings Account contributions. Fortunately, the final legislation did not contain any of these provisions.

However, new provisions expand permitted Section 529 Plan distributions for private tuition for elementary and secondary educational institutions. These permitted distributions will be limited to $10,000 per student annually, but they offer a great additional benefit to Section 529 Plans that did not exist under current law.

Roth Recharacterization

Under current law, taxpayers could make Roth IRA conversions, track the investment performance of the underlying assets and unwind them if the investments did not perform (increase in value) as originally expected. Now, Roth conversion recharacterizations will be eliminated ending a valuable look-back planning opportunity.

Financial advisors, for information about building clients' portfolios, contact your Calamos Investment Consultant at 888-571-2567 or caminfo@calamos.com.

For more information about federal and state taxes, please consult the Internal Revenue Service and the appropriate state-level departments of revenue, respectively.

CALAMOS INVESTMENTS

Calamos Investments LLC
2020 Calamos Court | Naperville, IL 60563-2787 800.582.6959 | www.calamos.com | caminfo@calamos.com

Calamos Investments LLP
62 Threadneedle Street | London EC2R 8HP
Tel: +44 (0)20 3744 7010 | www.calamos.com/global

800961 1217R