3 traditional midyear tax planning strategies for individuals that hold up post-TCJA

With its many changes to individual tax rates, brackets and breaks, the Tax Cuts and Jobs Act (TCJA) means taxpayers need to revisit their tax planning strategies. Certain strategies that were once tried-and-true will no longer save or defer tax. But there are some that will hold up for many taxpayers. And they'll be more effective if you begin implementing them this summer, rather than waiting until year end. Take a look at these three ideas, and contact us to discuss what midyear strategies make sense for you.

1. Look at your bracket

Under the TCJA, the top income tax rate is now 37% (down from 39.6%) for taxpayers with taxable income over $500,000 (single and head-of-household filers) or $600,000 (married couples filing jointly). These thresholds are higher than for the top rate in 2017 ($418,400, $444,550 and $470,700, respectively). So the top rate might be less of a concern.

However, singles and heads of households in the middle and upper brackets could be pushed into a higher tax bracket much more quickly this year. For example, for 2017 the threshold for the 33% tax bracket was $191,650 for singles and $212,500 for heads of households. For 2018, the rate for this bracket has been reduced slightly to 32% — but the threshold for the bracket is now only $157,500 for both singles and heads of households.

So a lot more of these filers could find themselves in this bracket. (Fortunately for joint filers, their threshold for this bracket has *increased* from $233,350 to $315,000.)

If you expect this year's income to be near the threshold for a higher bracket, consider strategies for reducing your taxable income and staying out of the next bracket. For example, you could take steps to accelerate deductible expenses.

But carefully consider the changes the TCJA has made to deductions. For example, you might no longer benefit from itemizing because of the nearly doubled standard deduction and the reduction or elimination of certain itemized deductions. For 2018, the standard deduction is $12,000 for singles, $18,000 for heads of households and $24,000 for joint filers.

2. Incur medical expenses

One itemized deduction the TCJA has retained and — temporarily — enhanced is the medical expense deduction. If you expect to benefit from itemizing on your 2018 return, take a look at whether you can accelerate deductible medical expenses into this year.

You can deduct only expenses that exceed a floor based on your adjusted gross income (AGI). Under the TCJA, the floor has dropped from 10% of AGI to 7.5%. But it's scheduled to return to 10% for 2019 and beyond.

Deductible expenses may include:

- Health insurance premiums,
- Long-term care insurance premiums,
- Medical and dental services and prescription drugs, and
- Mileage driven for health care purposes.

You may be able to control the timing of some of these expenses so you can bunch them into 2018 and exceed the floor while it's only 7.5%.

3. Review your investments

The TCJA didn't make changes to the long-term capital gains rate, so the top rate remains at 20%. However, that rate now kicks in *before* the top ordinary-income tax rate. For 2018, the 20% rate applies to taxpayers with taxable income exceeding $425,800 (singles), $452,400 (heads of households), or $479,000 (joint filers).

If you've realized, or expect to realize, significant capital gains, consider selling some depreciated investments to generate losses you can use to offset those gains. It may be possible to repurchase those investments, so long as you wait at least 31 days to avoid the "wash sale" rule.

You also may need to plan for the 3.8% net investment income tax (NIIT). It can affect taxpayers with modified AGI (MAGI) over $200,000 for singles and heads of households, $250,000 for joint filers. You may be able to lower your tax liability by reducing your MAGI, reducing net investment income or both.