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Year-end moves for those who believe President-elect Trump will cut their taxes next year

In his first televised interview, President-elect Trump declared that a "major tax bill lowering taxes in this country" would be one of his top three priorities. Those middle and upper income taxpayers who are betting he can deliver on this promise, and put his tax reduction plan in place for 2017, should revisit their year-end tax moves to make the most of what might be windfall savings next year.

Defer income to 2017. The Trump taxplan would feature three tax brackets instead of current law's seven, and a top tax rate of 33% instead of current law's 39.6%. The upshot of these and other tax-reduction changes, if retained in the final taxplan, would be reduced taxes for middle and upper income taxpayers, with the biggest tax savings realized by the wealthiest taxpayers.

The standard year-end tax-savings wisdom always has been to defer income, where possible, into the coming year. This standard approach would make even more sense for middle and upper income taxpayers if the Trump taxplan prevails over others in Congress, and goes into effect for tax year 2017.

Here are some of the ways to defer income until 2017:

- An employee who believes a bonus may be coming his way may be able to request that his employer delay payment of any bonus until early in the following year. For example, if a bonus would normally be paid on Dec. 15, 2016, an employee may ask the employer before Dec. 15 to defer any bonus coming his way until Jan. 2, 2017. By deferring the bonus, the employee will succeed in having it taxed in 2017. But note that if an employee waits until a bonus is due and payable to request a deferral, the tax on the bonus will not be deferred. Also, if the deferral extends beyond 2-½ months after the close of the tax year, the bonus will be treated as nonqualified deferred compensation (currently includible in income to the extent not subject to a "substantial risk of forfeiture" if the arrangement fails to meet certain distribution, acceleration of benefit, and election requirements).

- Income that a cash basis taxpayer earns by rendering services isn't taxed until the client, patient etc., pays. If the taxpayer (e.g., consultant, business person, medical professional) holds off billing until next year-or until so late in the year that no payment can be received in 2016-he will succeed in deferring taxable income until next year.
- Defer "first year" required minimum distributions (RMDs) from an IRA or 401(k) plan (or other employer-sponsored retirement plan). RMDs from IRAs must begin by April 1 of the year following the year a taxpayer reaches age 70-½. That start date also applies to company plans, but non-5% company owners who continue working may defer RMDs until April 1 following the year they retire. Although RMDs must begin no later than April 1 following the year in which the IRA owner attains age 70-½, the first distribution calendar year is the year in which the IRA owner attains age 70-½. Thus, if a taxpayer turns age 70-½ in 2016, he can delay the first required distribution to 2017, but if he does so, there will have to take a double distribution in 2017-the amount required for 2016 plus the amount required for 2017.Delaying 2016 distributions to 2017 thus will bunch income into 2017, but that would be beneficial if the taxpayer winds up in a substantially lower bracket that year.
- Defer a traditional IRA-to-Roth IRA conversion until 2017. Such a conversion generally is subject to tax as if it were distributed from the traditional IRA or qualified plan and not recontributed to another IRA. Thus, a taxpayer who plans to make such a conversion should defer doing so if he believes the conversion will face a lower tax next year.

Defer property sales. The President-elect's plan to repeal the Affordable Care Act ("Obamacare") also would repeal the 3.8% surtax on investment income. This surtax applies to the lesser of (1) net investment income or (2) the excess of modified adjusted gross income (MAGI) over the threshold amount ($250,000 for joint filers or surviving spouses, $125,000 for a married individual filing a separate return, and $200,000 for other taxpayers). As a result, if the surtax is repealed for 2017, taxpayers within the reach of the surtax, and are contemplating the sale of property that would generate a large investment gain, would benefit by deferring the sale until next year (assuming of course that the sale price would stay more or less the same).

If the sale can't be postponed, it may be possible to structure the deal as an installment sale. By making a sale this year with part or all of the proceeds payable next year or later, a non-dealer seller to whom the installment method applies becomes taxable in any year on only that proportion of his profit which the payments he receives that year bear to the total sale price. If the 3.8% surtax is repealed for tax years beginning after 2016, the profit on the post-2016 installment payments would escape the surtax. Note that the Trump taxplan would keep current law's maximum tax rate of 20% of capital gains.

On the deduction side. Itemized deductions produce no tax savings for a year in which a taxpayer claims the standard deduction, and many more taxpayers would claim the standard deduction under President-elect Trump's tax plan. It calls for a dramatically increased standard deduction: $30,000 for joint filers (up from $12,600 for 2016) and $15,000 for singles (up from $6,300). If the boosted standard deduction makes it into law for 2017, many taxpayers who itemize under current law and wouldn't be able to under the Trump plan would be better off accelerating next year's itemized deductions into this year, when they will generate a tax savings. And, even if the standard deduction proposal is watered down, itemized deductions still will be more valuable to a taxpayer this year than next if he expects to be in a lower marginal tax bracket in 2017.

For example, those whose 2016 medical expenses exceed the 10% of AGI floor (7.5% of AGI for those age 65 or older) could accelerate into this year discretionary or elective medical procedures or expenses, such as dental implants or expensive eyewear. Individuals could boost charitable contributions (e.g., making two years worth of contributions this year to a favorite cause), pay state income tax and local property tax a bit early (keeping in mind that such taxes are not deductible for alternative minimum tax purposes), or make a year-end mortgage payment.