



## Individual Tax Planning Alert

December 21, 2017

### TAX PLANNING

## POTENTIAL END-OF-YEAR OPPORTUNITY: PREPAYING PROPERTY TAXES

As you have almost certainly heard, the Tax bill just passed by Congress limits to \$10,000 the aggregate amount of state and local income taxes, property taxes and sales taxes that may be claimed as an itemized deduction, beginning in 2018. The drafters of the legislation also expressly prevented individuals from claiming a deduction in 2017 for any prepayment in 2017 of 2018 state and local income taxes. Nevertheless, the Act prevents only a deduction for the prepayment of state and local income taxes, not property taxes. Therefore, subject to certain caveats described below, it may be beneficial for you to prepay your estimated 2018 property taxes before the end of 2017.

First, not all states will accept a prepayment of property taxes. For example, Virginia expressly allows for a prepayment, by statute, whereas Maryland will not accept a prepayment. Check the rules for your state and/or county.

Second, if you are subject to the alternative minimum tax (AMT) in 2017, prepaying your property taxes will not reduce your federal income tax liability for 2017. However, if your state allows a deduction for property taxes and otherwise follows federal rules, you may save a small amount of *state* income tax by prepaying in 2017 any amount of your anticipated 2018 property taxes in excess of \$10,000. That excess will be deductible on your state income tax return for 2017, but would be nondeductible if paid in 2018.

Finally, if your mortgage company escrows for property taxes, you can almost certainly still prepay your estimated property taxes for 2018 in 2017. Upon sending proof of the property tax payment to your mortgage company, it should remit that amount to you from the escrow. Check with your mortgage company.

Best wishes for a happy holiday with family and friends, and a healthy and prosperous 2018.