

Tax Minimizers of Oregon Inc.

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ClientAdvisor

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Why bunching is now more useful than ever

With the near doubling of the standard deduction amount to \$12,000 for single filers and \$24,000 for joint filers this year, a new itemizing strategy is emerging. The idea is being called bunching by some and it is a potential strategy every taxpayer should understand.

► How bunching helps to minimize tax

With tax bunching, you move multiple years (two or three) of deductible expenses into the one year you intend to itemize. In effect, you minimize your itemized deductions in the year(s) you use the standard deduction.

► Assess your bunching option

Using the bunching idea requires planning. Here are some ideas:

- 1. Know how close you are to the deduction limit.** Because of the many new limits on qualified itemized deductions, you will first need to estimate how close you are to the new thresholds. Do this by looking at your 2017 tax return and seeing how close you will be. Remember to limit your state and local tax deduction to \$10,000 and eliminate any miscellaneous itemized deductions.
- 2. Look at medical and dental expenses.** This is a potential

bunching expense group if you project these expenses will surpass 7.5 percent of your income. Schedule non-emergency expenses, such as medical exams and dental cleanings, in a year they will clear the deduction threshold. Plan other electives such as crowns and braces in one year versus many. You may even wish to move up health insurance premium payments.

- 3. Consider charitable donations as bunching options.** This is the largest potential bunching area. Make all your gifts in a year you plan to surpass the standard deduction threshold. But keep an eye on the 60 percent-of-AGI annual limit. Alternatively, consider postponing contributions to January of the following year if you won't itemize.
- 4. Use mortgage interest as another bunching tool.** The deduction for interest paid on new acquisition debt of up to \$750,000 (or \$1,000,000 if the loan was made prior to Dec. 15, 2017) is still available. Consider pre-paying the next month's mortgage payment at the end of the year to increase the deductible interest in the year you wish to itemize.

Remember, if you expect to itemize or face a close call, bunching may be a better approach. ♦

Everyday Advice

Always, always have a plan.

— Rick Riordan, Author

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