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Maximize Your Deductions Now. A Trump Presidency Means You Could Lose Them

Several big tax deductions are likely to be far less valuable or even disappear next year

The Internal Revenue Service building in Washington. This year the standard deduction is $6,300 for most single income tax filers and $12,600 for most married couples. *PHOTO: ASSOCIATED PRESS*

By LAURA SAUNDERS

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American taxpayers should take advantage of several big tax deductions, such as charitable giving, as they are likely to be far less valuable or even disappear next year.

With the Republicans controlling both the White House and Congress in 2017, major tax changes are expected. President-elect Donald Trump and House Republicans have offered separate plans that align on some points and diverge on others. Also in the mix is a 2014 proposal from then-House Ways & Means Chairman Dave Camp (R., Mich.), which tackles tough issues.

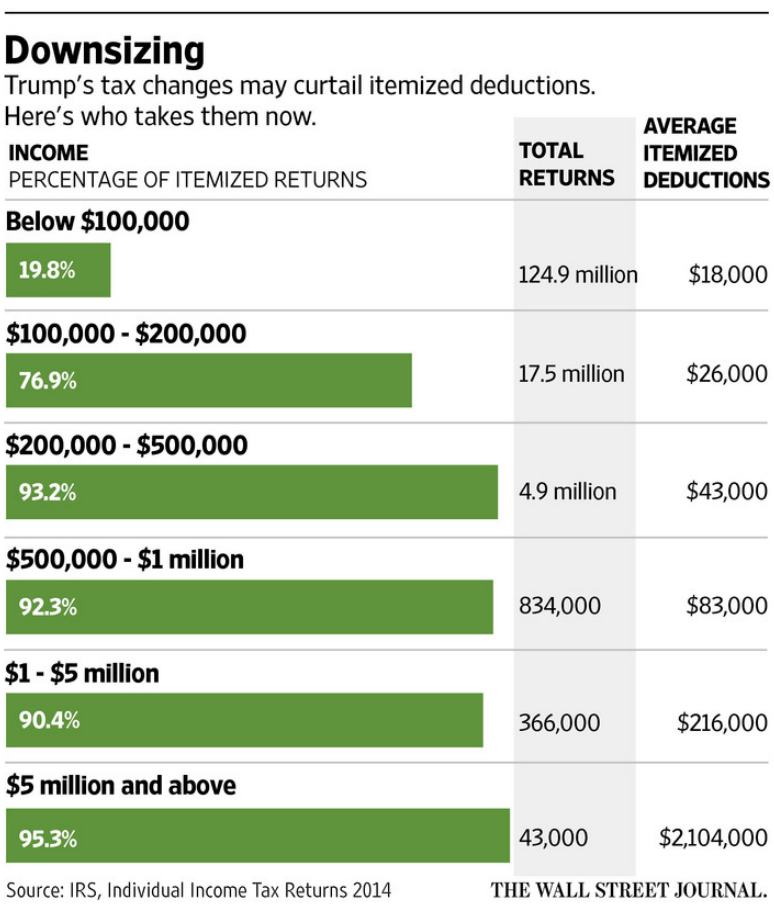
All three plans agree on lowering income-tax rates, which reduces the value of deductions and exemptions. All three plans also take further aim at "itemized" deductions—the write-offs listed on Schedule A of Form 1040. There are seven categories, but the most important for many filers are state and local taxes, mortgage interest, and charitable donations. For some, the medical expense deduction is also significant.

Currently only about 30% of filers itemize their deductions, and the percentage rises sharply with income—although it ticks down slightly for higher earners at some levels. These are likely to be people who can buy homes outright and give strategically to charity rather than annually, among other things.

Average deductions also rise with income: They topped $2 million for taxpayers earning more than $5 million in 2014, according to the latest IRS data, perhaps because some wealthy donors made outsize charitable gifts.

In addition to reducing the value of deductions by lowering rates, the Trump, Ryan and Camp plans want to reduce the number of taxpayers who itemize individual deductions on Schedule A by increasing the lump-sum amount, or "standard" deduction, taxpayers can use instead.

This year the standard deduction is $6,300 for most single filers and $12,600 for most married couples. Ryan's plan would double these amounts and Trump's would raise them to $15,000 for singles and $30,000 for couples.



Beyond these common goals, details in the proposals differ. In general, Trump's plan would cap itemized deductions at $100,000 for singles and $200,000 for couples. Ryan's and Camp's plans would eliminate all itemized deductions other than ones for charitable gifts and mortgage interest, and Camp's would impose new limits on the remaining two.

Whether tax changes take effect in 2017 or 2018 is unclear and depends in part on how fast lawmakers act. But here are moves to consider.

Charitable donations: Because tax benefits for charitable donations could get a haircut or a whack next year, tax advisers are telling donors to think about speeding up tax-deductible gifts—especially major ones—to maximize these breaks.

Remember two tax-smart techniques. “Donor-advised” funds allow givers to take deductions this year, invest the donation, and then make grants to charities from the fund as desired over time. These mini-foundations have grown in popularity and now have nearly $80 billion in total assets, compared with $34 billion five years ago, according to data from the National Philanthropic Trust.

In addition, donors often reap valuable tax benefits when they contribute appreciated assets such as stock shares instead of cash to charities, including to donor-advised funds. Often there is no tax on the appreciation and the taxpayer can take a deduction for the asset’s fair-market value.

State and local taxes: The days of this deduction may be coming to an end. Already, about 4 million Americans, many from high-tax states, lose this write-off because they owe the alternative minimum tax, according to the Tax Policy Center in Washington. And people who get this break tend to live in high-tax “blue” states such as California, New York, New Jersey and Massachusetts.

For taxpayers who do benefit from this deduction, it could make sense to pay 2016’s remaining balances before year-end, says Jeffrey Porter, a certified public accountant who practices in Huntington, W.Va.

Mortgage interest: Real estate advocates are powerful, but the value of this deduction dropped in recent decades and may be in for further shrinkage if taxes change next year. So don’t buy a first or second home if you need the current law’s benefits to afford it, says Mr. Porter.

And don’t rush to prepay next year’s mortgage, he adds, as taxpayers can’t take deductions for prepaid interest expenses.

Write to Laura Saunders at laura.saunders@wsj.com