

Accelerating Your Property Tax Deduction to Reduce Your 2016 Tax Bill



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Smart timing of deductible expenses can reduce your tax liability, and poor timing can unnecessarily increase it. When you don't expect to be subject to the alternative minimum tax (AMT) in the current year, accelerating deductible expenses into the current year typically is a good idea. Why? Because it will defer tax, which usually is beneficial. One deductible expense you may be able to control is your property tax payment.

You can prepay (by December 31) property taxes that relate to 2016 but that are due in 2017, and deduct the payment on your return for this year. But you generally can't prepay property taxes that relate to 2017 and deduct the payment on this year's return.

Should you or shouldn't you?

As noted earlier, accelerating deductible expenses like property tax payments generally is beneficial. Prepaying your property tax may be especially beneficial if tax rates go down for 2017, which could happen based on the outcome of the November election. Deductions save more tax when tax rates are higher.

However, under the President-elect's proposed tax plan, some taxpayers (such as certain single and head of household filers) might be subject to higher tax rates. These taxpayers may save more tax from the property tax deduction by holding off on paying their property tax until it's due next year.

Likewise, taxpayers who expect to see a big jump in their income next year that would push them into a higher tax bracket also may benefit by *not* prepaying their property tax bill.

More considerations

Property tax isn't deductible for AMT purposes. If you're subject to the AMT this year, a prepayment may hurt you because you'll lose the benefit of the deduction. So before prepaying your property tax, make sure you aren't at AMT risk for 2016.

Also, don't forget the income-based itemized deduction reduction. If your income is high enough that the reduction applies to you, the tax benefit of a prepayment will be reduced.

Not sure whether you should prepay your property tax bill or what other deductions you might be able to accelerate into 2016 (or should consider deferring to 2017)? Contact us. We can help you determine the best year-end tax planning strategies for your specific situation.