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IMPACTS TO INDIVIDUAL TAX RETURNS (Tax Topic #1)

New Tax Law and What It Means to Individual Tax Returns.

Timing. The Tax Cuts and Jobs Act had some minor impact in 2017, but the bulk of the provisions take effect from 2018 to 2025. To comply with budgetary constraints, many provisions are temporary. Unless otherwise indicated, the provisions discussed below will expire on Dec. 31, 2025 at which time tax law reverts back to 2017 rules.

Tax rates. Tax rates are reduced. The top rate is reduced from 39.6% to 37%. Lower rates are also reduced. Click here for ***New Tax Brackets***

Exemptions and the child tax credit. The deduction for personal exemptions is eliminated. An expanded child tax credit will help make up for the loss of personal exemptions for some families. The credit is increased to $2,000 (from $1,000) for qualifying children under 17. For children 17 and older and for other dependents, the credit is $500.

Standard deduction. The new tax law doubles the standard deduction. The higher standard deduction ($12,000 for singles, $18,000 for heads of household, and $24,000 for married filing joint) means that fewer taxpayers will benefit from itemizing deductions. The additional standard deduction amount for those 65 or older (or are blind) is $1,300 per person if married and $1,600 if single.

Itemized deductions.

- Itemized deductions for all state and local taxes, including property taxes, are capped at $10,000.
- The limit on mortgage debt for purposes of the mortgage interest deduction is reduced from $1,000,000 to $750,000 for loans made after Dec. 15, 2017. Loans made before Dec. 15, 2017 are grandfathered at the $1,000,000 debt limit. (See additional discussion at ***Tax Topic #2***.)
- The interest on home equity borrowing is no longer deductible if used for personal expenses. (See additional discussion at Tax Topic #2.)
- The threshold for medical expense deductions is lowered to 7.5% of adjusted gross income (from 10%) for tax years 2017 and 2018.
- Miscellaneous itemized deductions subject to the 2% of AGI limitation are not allowed. Miscellaneous itemized deductions lost because of the new law include unreimbursed employee business expenses, investment adviser fees, union dues, and tax prep fees.
- Personal casualty losses are not allowed unless the losses were suffered in a federally declared disaster area.

Alimony. The new tax law eliminates the alimony deduction for agreements signed after Dec. 31, 2018. Alimony income is not taxable for agreements signed after Dec. 31, 2018. There is no change to the law for agreements signed before Jan. 1, 2019. This lax law change does not expire after 2025.

Moving expenses. The new tax law eliminates the moving expense deduction and makes employer reimbursement of moving expenses taxable to the employee beginning in 2018.

AMT. The new tax law temporarily increases the alternative minimum tax (AMT) exemption for tax years 2018 through 2025. The increase in the exemption, as well as the elimination of major tax preferences (exemptions, state taxes above $10,000 and miscellaneous itemized deductions), means that fewer people will be subject to AMT under the new law.

Education. The new tax reform law modifies qualified tuition programs - §529 plans. Funds (up to $10,000, per year, per student) in 529 plans can now be used to pay for grades K to 12 private school tuition. This lax law change does not expire after 2025.

Roth IRA conversions. The new tax reform law repeals the special rule permitting recharacterization of Roth IRA conversions. A conversion of a traditional IRA to a Roth IRA may still be advisable, but once the conversion is completed, it can't be undone. This lax law change does not expire after 2025.

State impact. California and several other states do not automatically conform to the Federal tax changes.

Summary. These are just a few of the broader changes included in the Tax Cuts and Jobs Act. Your 2018 taxes will be affected. That's guaranteed by the scope of the changes, but the degree of impact depends on your personal situation.

Questions we can help to answer.

- Is there anything I can do now that will make my taxes less under the new tax reform law?
- Is my withholding enough so that I won't have any surprises next Apr. 15th? (See additional discussion on tax withholdings at Tax Topic #3.)
- Is now the time to fund or contribute more to a Charitable Gift Fund (aka Donor Advised Fund)?
- Will a contribution of my Required Minimum Distribution (RMD) to charity be beneficial to me?

Please do reach out if you have questions regarding your specific situation.