TaxTips

Keeping you informed

special edition

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Tax Cuts and Jobs Act

How will the new law impact you?

On Dec. 22, 2017, the *Tax Cuts and Jobs Act* was signed into law, enacting the most significant tax reform in decades. Many changes affecting individual taxpayers and businesses are taking effect in 2018. Most of the individual changes will expire at the end of 2025, meaning the old tax rates and deductions will return in 2026 unless Congress passes another law before then. Following are a few provisions of the new tax law and how they may impact you.

Tax Rates

Tax rates are lower for all taxpayers in all income brackets. There are now seven rates: 10%, 12%, 22%, 24%, 32%, 35% and 37%. Depending on your income and other deductions, you may see a larger refund or lower balance due as a result of these new rates. To accommodate the lower rates, the withholding tables have been revised. Review your pay stub and consider making any necessary adjustments to your withholding by completing a new W-4.

Standard Deductions

The standard deduction has doubled for all taxpayers. This increase may cause some of you to no longer have high enough deductions to itemize.

- Married filing jointly - $24,000
- Head of Household - $18,000
- Single/Married filing separately - $12,000

You are entitled to an additional standard deduction of $1,600 ($1,300 if married) if you are age 65 or older, or blind.

Personal Exemptions and Credits

Personal exemptions are no longer allowed. In past years, you were allowed to deduct a certain amount—$4,050 in 2017—for each person you could claim as a dependent. All is not lost, however, if you have children.

The child tax credit has been increased to $2,000 for each child who is your dependent and under age 17. Up to $1,400 of this credit is refundable, meaning you may be eligible for a refund even though you paid in no tax. A nonrefundable $500 credit is available for other dependents who are age 17 and older.

Itemized Deductions

Itemized deductions have been trimmed under the new law and fewer taxpayers will find it beneficial to save all those receipts they've been trained to keep. Here's what you can still deduct as itemized deductions:

- Medical expenses in excess of 7.5% of your adjusted gross income
- State and local income, property and sales tax up to $10,000
- Mortgage interest paid on up to $750,000 of debt on your primary or secondary home
- Casualty losses occurring in a federally declared disaster area
- Charitable contributions

The list of expenses that are no longer deductible is lengthy. They include all expenses that were subject to 2% of your adjusted gross income such as unreimbursed employee business expenses plus some other expenses you may be accustomed to deducting. Here are some of the more common items that are no longer deductible.

Deductions subject to the 2% floor:

- Tax preparation fees
- Safe deposit box rental
- Union and other professional dues
- Safety equipment and tools required for work as an employee
- Job search expenses
- Work clothes
- Work-related education expenses
- Home office deductions
- Legal fees
- Unreimbursed employee business expenses, such as mileage
- Investment expenses
- Hobby expenses to the extent of hobby income

Education

The deduction for interest paid on a student loan stays. You are allowed a deduction of up to $2,500 if your income is below certain limits ($65,000 if single; $135,000 for joint filers).

There were also no changes to the American Opportunity Credit or the Lifetime Learning Credit. The American Opportunity Credit allows you to claim a tax credit up to $2,500 per year for the first four years of college if you paid qualifying expenses and were enrolled at least half-time at a university or college. A 20% Lifetime Learning credit is allowed in any year you pay qualified expenses but is limited to no more than $2,000.

Teachers

Eligible educators are permitted to deduct up to $250 of unreimbursed expenses incurred for their classroom. Eligible educators are elementary or secondary school teachers, instructors, counselors, principals, or aides in a school for at least 900 hours during a school year.

Section 529 Plans

Section 529 plans have long been a great way to save and pay for college. You can set up accounts for your beneficiaries, and typically there are no limits on the amount that you can contribute. Plus, contributions earn tax-free interest. Contributions on behalf of any beneficiary, however, can't be more than the amount necessary to provide for the qualified higher education expenses of the beneficiary.

The new law expands the rules regarding 529 plans to include allowing tax-free distributions to pay for elementary or secondary public, private, or religious school in addition to college. Distributions for elementary or secondary tuition are limited to no more than $10,000 per student.

Alimony

If you are divorced after Dec. 31, 2018, and are the recipient of alimony payments, they are not considered taxable income. On the flip side, if you are required to pay alimony under a divorce or separation instrument executed after Dec. 31, 2018, you are not entitled to a deduction for those payments. If you were divorced prior to 2019, and your divorce decree was modified after Dec. 31, 2018, to include alimony payments, the above-mentioned new rules apply to you as long as the modification specifically states that amendments made by the *Tax Cuts and Jobs Act* apply.

Affordable Care Act

The *Affordable Care Act* requires all taxpayers to have health insurance that has minimum essential coverage. Unless you have an exemption from coverage, you are subject to a penalty. Beginning in 2019, this penalty is suspended. That doesn't mean the requirement to have health insurance is gone; it merely means you will not incur a penalty for failing to have it.

Tax Planning

As your tax preparer, I'm here to assist you with understanding the implications that the new tax law will have on you and your family. Please feel free to call me with any questions or concerns.