Individual 2018 Tax Season Tax Letter

New tax changes for the upcoming 2018 tax year

Following-up to our e-mail earlier in 2018

The Tax Cuts and Jobs Act (TCJA or the Act) made changes to itemized deductions and above the line deductions, exclusions and personal credits. Most of the following modifications will expire and pre-TCJA law will again apply after Dec. 31, 2025*.

Marginal Tax Rates: For 2018, the top individual income tax rate of 37 percent will apply to incomes over $500,001 (single), $600,001 (married filing jointly and surviving spouse), $300,001 (married filing separately), and $500,001 (heads of households). In addition, high-income taxpayers are also subject to the 3.8 percent net investment income tax and/or the .9 percent Medicare surtax.

Moving Expenses: Moving expenses and the exclusion for qualified moving expense reimbursements have been suspended except for members of the Armed Forces on active duty. Note: Qualifying reimbursements a taxpayer receives from his or her employer in 2018 for expenses incurred in connection with a 2017 move remain excludable from income.

Alimony: The deduction for alimony paid pursuant to a divorce or separation decree executed after 2018 or to a modification to an existing agreement made after 2018 (if the modification expressly provides for the new law to apply) is no longer deductible. Accordingly, alimony under post-2018 agreements or modifications is no longer includible in the recipient’s income.

Medical expenses: For tax years beginning after Dec. 31, 2016, and before Jan. 1, 2019, the floor for determining the deductibility of medical expenses is reduced to 7.5 from 10 percent of AGI, regardless of the taxpayer’s age. Effective January 1, 2019, the floor reverts to 10 percent of AGI for all taxpayers.

State and local taxes: State tax deductions (SALT) are now limited to a cap of $10,000 ($5,000 for married taxpayers filing separately) for the deductions for state and local income, property and/or sales taxes. Foreign real property taxes are no longer deductible. The $10,000 cap does not apply to business Trade or business state tax deductions, Trade or business can still continue to deduct state taxes.

Mortgage interest: Starting in 2018, mortgage interest on total principal of as much as $750,000 in qualified residence loans can be deducted, down from the previous principal limit of $1,000,000. For married taxpayers filing a separate return, the new principal limit is $375,000, down from $500,000. It's worth pointing out that this limit only applies to new loans originated after 2017. Preexisting mortgage loans are grandfathered into the old limits. The Act suspends the deduction for interest paid on home equity indebtedness; however, the IRS clarified earlier this year this interest is still deductible if the loan is used to buy, build or substantially improve the taxpayer’s home that secures it

Charitable contributions: Under previous law, the deductibility of contributions to public charities was limited to 50 percent of the taxpayers AGI without regard for any net operating loss carryback to the tax year of the contribution). The percentage has now been increased to 60 percent.

Miscellaneous itemized deductions: The Tax Cuts and Jobs Act suspended miscellaneous itemized deductions subject to the 2 percent-of-AGI floor. Including but not limited to the suspension of unreimbursed employee business expenses, tax preparation fees, investment fees, safe deposit box rental fees, etc.

Personal casualty and theft losses: Only such losses attributable to a federally declared disaster are deductible under the new law. However, in the case of a taxpayer with personal casualty or theft gains, any personal casualty or theft losses not attributable to a federally declared disaster are still available to the extent they do not exceed the aforementioned gains.

Standard deduction and personal exemptions: The standard deduction is increased to $24,000 for joint filers and surviving spouses, $18,000 for head-of-household filers, and $12,000 for all others; and are now indexed for inflation. The additional standard deductions for the elderly or blind ($1,250 for joint filers per spouse and surviving spouses, $1,550 for all other filers) remain unchanged.

Personal exemption deductions for a taxpayer, spouse and dependents have been eliminated.

Child tax and qualifying dependents credits: The child tax credit is increased to $2,000 per qualifying child from $1,000, with a maximum refundable amount of $1,400 per credit. The AGI threshold at which the credit begins to phase out was increased to $400,000 from $110,000 for joint filers and to $200,000 from $75,000 or $55,000 for all other filers. Not indexed for inflation.

Alternative Minimum Tax (AMT): The AMT threshold is increased, so fewer middle-income taxpayers will be subject to AMT.

Estate Taxes: A doubling of the estate tax exemption thresholds to approximately $11.18 million and $22.36 million inflation indexing for a married couple after Dec. 1, 2019 (but reverting to pre-Act law after 2025).

Gift Taxes: The annual individual gift tax exclusion has been increases to $15,000 for 2018.

If you have any questions, please feel free to reach out to our office.

2019 is going to be a great year!

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