

TAX\$AVERS

Important 2018 tax changes



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2018 Tax Alert

Tax year 2018 comes with more changes than taxpayers have seen in decades. Virtually everyone will see a different tax bill than they did last year now that the Tax Cuts and Jobs Act passed in late 2017. From large increases in standard deductions to the elimination of personal exemptions, the landscape has changed dramatically. Here is a summary of what you should know.

Individual Taxes

Tax Rates. While there are still seven tax rates, most have been lowered from 2017.

yr	Individual tax rates (%)						
2018	10	12	22	24	32	35	37
2017	10	15	25	28	33	35	39.6
+/-	-	-3	-3	-4	-1	-	-2.6

Long-term capital gains tax rates remain unchanged for 2018 and range from 0%-20%.

2018 Beginning Income for Tax Rate		
Single	Rate	Married Joint
\$1	10%	\$1
9,526	12%	19,051
38,701	22%	77,401
82,501	24%	165,001
157,501	32%	315,001
200,001	35%	400,001
500,001+	37%	600,001+

Note: most married income thresholds are double the single, meaning the marriage penalty of prior years is eliminated for most tax brackets.

Moving Expenses Limited. Moving expenses are no longer a deductible item. An exception exists for qualified military moves.

Standard Deductions & Exemptions. Standard deductions increase dramatically in 2018 while personal exemptions are suspended (eliminated) through the year 2025.

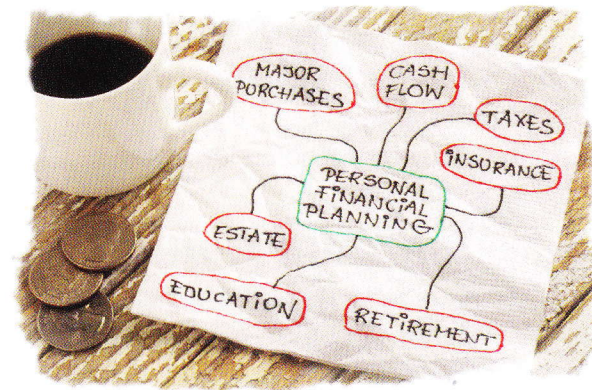
Standard Deductions		
Item	2018	2017
Single	\$12,000	\$6,350
Married	24,000	12,700
Head of Household	18,000	9,350
Add'l for :		
Elderly/blind: married	1,300	1,250
Elderly/blind: unmarried	1,600	1,550

Changes in Itemized Deductions. With the increase in the standard deduction, the new tax act dramatically changes how itemized deductions are handled. The changes include:

- ✔ Limit of \$10,000 for a combined state income, sales and property tax deduction.
- ✔ 7.5% of Adjusted Gross Income medical expense threshold.
- ✔ Elimination of miscellaneous deductions subject to 2% of Adjusted Gross Income.
- ✔ Elimination of "home equity indebtedness" interest deduction. Unless used to buy, build, or substantially improve a qualified residence, interest is no longer deductible.
- ✔ Reduction of interest deductibility on acquisition indebtedness to \$750,000 (formerly \$1 million) for new loans taken out after December 14, 2017.
- ✔ Limitation of casualty losses to federally declared disaster areas.
- ✔ No phase out of itemized deductions.
- ✔ Increase limits on donations to qualified charities to 60% of income up from 50%.

Child Tax Credit (CTC). The CTC doubles to \$2,000 in 2018, with phase out of the benefit starting at \$400,000 for married and \$200,000 for unmarried taxpayers. The CTC is available for most parents with children 16 or younger. The law makes \$1,400 of the credit a refundable credit, creates a new \$500 family credit for dependents ineligible for the CTC.

Redefinition of Kiddie Tax Rules. Unearned



income of children 19 or younger (age 24 if a qualified student) will use the estate and trust tax rates to determine income tax. Rules do not tax the first \$1,050 of unearned income and tax the next \$1,050 at the child's tax rate. The estate and trust rates range from 10% to 37%.

Health Savings Accounts. The Health Savings Account (HSA) annual contribution limits for those in qualified high deductible health insurance plans is \$3,450 for a single taxpayer and \$6,850 for a family. If you are age 55 or over the amount increases by \$1,000.

Social Security Limits. In 2018, income subject to Social Security tax is \$128,400.

Tax Laws no Longer Available

A number of popular tax deductions you may have used in prior years are no longer available. Use the list to determine whether your tax situation will change:

- ✔ Personal exemptions
- ✔ Moving expenses (except for qualified military)
- ✔ Domestic Product Activities Deduction (DPAD)
- ✔ 2% miscellaneous itemized deductions
- ✔ Home equity indebtedness interest deduction
- ✔ Itemized deduction phaseout rules
- ✔ Most casualty losses (except in federally declared disaster areas)

- ✓ Taxability and deductibility of alimony. (beginning in 2019)
- ✓ Individual responsibility penalty (beginning in 2019)

Other Key 2018 Tax Laws

Estate Taxes. In 2018, the maximum estate tax is 40%. The amount of an estate's value exempt from federal tax is now \$11.2 million for single and \$22.4 million for married taxpayers.

Gift Taxes. The gift tax rates are unified with estate taxes. The annual gift exclusion amount for 2018 is \$15,000 (\$30,000 per couple).

Health Care Provisions. In 2018 there are two Affordable Care Act tax provisions worth noting.

📌 **Shared Responsibility Payment.** If you do not have qualified health insurance for yourself and your dependents you will need to pay a penalty during 2018. The penalty is scheduled to be suspended beginning in 2019. So plan to have health insurance or plan to pay the potential penalty. There are exceptions to this penalty if you meet certain requirements including low income and lack of affordable insurance options.

📌 **Premium Tax Credit.** If you purchase your health insurance through a marketplace exchange you could be eligible to receive a credit to help cover the cost of your insurance premium. The credit varies depending on your location, your income, number of dependents, and your health plan classification.

Mileage Rates. The amount available for qualified deduction of automobile use is:

Mileage Rates (per mile)		
Item	2018	2017
Business	54.5¢	53.5¢
Medical / Moving	18.0¢	17.0¢
Charitable	14.0¢	14.0¢

Business Taxes

In addition to lowering C corporation tax rates to a flat 21%, the Tax Cuts and Jobs Act makes numerous small business tax changes. Here are some of the most common.

Section 179 Limits. The maximum section 179 deduction for property placed in service in 2018 is \$1 million. This limit is reduced by total purchases of qualified property in excess of \$2.5 million. Section 179 allows small business owners to expense versus depreciate qualified property up to the published limits.

First-Year Bonus Depreciation. The ability to take 100% first-year bonus depreciation is in place for 2018.

Used as Well as New. The new depreciation rules now also include the purchase of used equipment.

Please remember that business depreciation-related provisions only impact the timing of when you expense your depreciation, not the total amount of depreciation you may expense over the life of the assets purchased.

New Business Deduction. The new tax law introduces a 20% qualified business income deduction. This deduction is available to pass-through entities including S corporations, partnerships, and sole proprietors. The benefit is limited for certain service businesses with income exceeding \$157,500 for single and \$315,000 for joint filers. It is also available for rental property business owners. Those with qualified business incomes above the threshold will have the benefit reduced. Stay tuned in this area, as the IRS is working through the rules.

This is a brief summary of some of the more common tax changes in 2018. Should you have any questions regarding your situation, please call.

This publication provides only summary information regarding the subject matter. Please call with any questions on how this information may impact your situation.

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