

# TaxUpdate

SPECIAL EDITION  
PREVIEW TAX CUTS AND JOBS ACT

Kim R Michael-Lee, CPA, CGMA

website: [KimMichaelLee.com](http://KimMichaelLee.com)

359 Erie Cir

Bloomington, IL 60108-8815

PHONE: 630-924-0881

FAX: 630-924-0882

E-MAIL: [taxteacher@sbcglobal.net](mailto:taxteacher@sbcglobal.net)

In late December a far-reaching tax bill, called the Tax Cuts and Jobs Act, was signed into law. This tax bill changes the way your tax return will be filed in 2018. Here is a summary of the key items in the bill and what it will mean to you.

## The Tax Cuts and Jobs Act

What you need to know now!

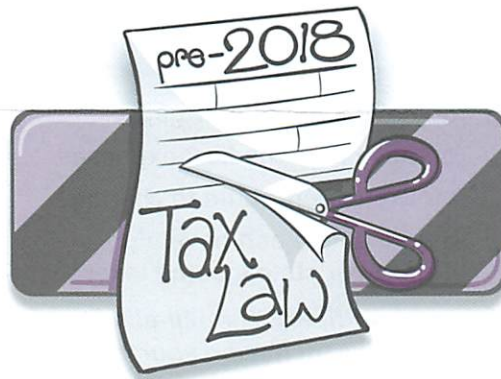
With the passage in late December of the Tax Cuts and Jobs Act, now is the time to gather your thoughts and take a planned approach to prepare for next year using the new tax rules.

### What to do now

**1 File your tax return.** If you have not already done so, file your 2017 tax return. The only retroactive change made to 2017 in the new tax bill is the rollback of the medical deduction threshold from 10% to 7.5% of Adjusted Gross Income (AGI). Filing your 2017 tax return is a key component in understanding how your 2018 tax obligation will change.

**2 Understand what has not changed.** While the changes created in this tax act are vast, some core areas remain unchanged. Key tax topics that might cause confusion are:

- Tax advantaged savings accounts.** Do not alter your tax plans to contribute to your retirement through IRAs and 401(k)s. Continue using other tax-advantaged accounts like Health Savings Accounts (HSAs) and 529 education sav-



ings accounts. None of these tax benefits go away.

- Individual mandate penalty.** While set to zero in 2019, the penalty for not having health insurance stays in place during 2018. So keep your health insurance or plan to pay the penalty.
- Alimony.** The deductibility for alimony paid is in place for 2018, but is eliminated in 2019. Alimony received is also impacted.

**3 Note the lower tax rates.** While there are still seven tax rates, most of the rates have been lowered. The marriage penalty built into the income brackets has also been

eliminated for all except the highest income earners. You will need to review your withholdings as soon as the IRS publishes new withholding guidelines.

**4 The new world of deductions.** The standard deductions have been nearly doubled, the personal exemption eliminated, and allowable itemized deductions dramatically altered. You will want to create an initial forecast of next year's obligations.

**5 Small business.** The bill introduced a 20 percent income reduction calculation for S Corps, partnerships, and sole proprietors. 100 percent first year bonus depreciation is available once again along with a \$1 million limit for Section 179 expensing.

**6 Temporary.** To control the forecasted cost of this tax bill, most of the tax law changes are set to expire in 2025. This makes planning very difficult, but even more important.

Please spend a few minutes reviewing the balance of this special edition newsletter. It provides a good summary of some of the major areas of change.

### Income Brackets and 2018 Tax Rates

Tax Rate	Single	Married Filing Joint/Widow	Head of Household	Married Filing Separate	Estates & Nongrantor Trusts
10%	\$1 – 9,525	\$1 – 19,050	\$1 – 13,600	\$1 – 9,525	\$0 – 2,550
12%	9,526 – 38,700	19,051 – 77,400	13,601 – 51,800	9,526 – 38,700	
22%	38,701 – 82,500	77,401 – 165,000	51,801 – 82,500	38,701 – 82,500	
24%	82,501 – 157,500	165,001 – 315,000	82,501 – 157,500	82,501 – 157,500	2,551 – 9,150
32%	157,501 – 200,000	315,001 – 400,000	157,501 – 200,000	157,501 – 200,000	
35%	200,001 – 500,000	400,001 – 600,000	200,001 – 500,000	200,001 – 300,000	9,151 – 12,500
37%	Over 500,000	Over 600,000	Over 500,000	Over 300,000	Over 12,500

### Standard Deductions for 2018

Single	\$12,000
Joint or Qualifying Widow	24,000
Head of Household	18,000
Married Filing Separate	12,000

### Key Retirement Plan Limits

Traditional IRA, Roth IRA	\$5,500 (+\$1,000 50 or over)
401(k), 403(b)	18,500 (+\$6,000 50 or over)
Simple IRA	12,500 (+\$3,000 50 or over)

## Are Itemized Deductions a Thing of the Past?

The standard deduction nearly doubles to \$12,000 for single filers and \$24,000 for married filing jointly. Not only does the standard deduction double, but many itemized deductions are no longer available or are now limited.



To help cover the cost of this dramatic increase, the bill does three things:

- 1 It suspends the use of personal exemptions.
- 2 It dramatically increases standard deductions.
- 3 It limits itemized deductions. This includes:
  - State and local tax deductions are limited to \$10,000.
  - There is no longer a home equity interest deduction.
  - Home acquisition interest deductibility is now based on \$750,000 (formerly \$1 million) of indebtedness.

This impacts loans taken out after 12/14/2017. Prior mortgages still use the \$1 million limit.

- Theft and casualty losses are limited to federally declared disasters.
- Miscellaneous deductions subject to the 2 percent of adjusted gross income threshold are now gone. This includes things like uniforms, fees for services and other unreimbursed business expenses.

### What this means

While many will no longer itemize deductions, don't be too hasty to assume it will include you. You will probably still itemize if:

- You have a home mortgage.
- You have high medical expenses.
- You like to contribute to charities.
- You are single and have high property or state income taxes.

**Some good news:** The bill eliminates the possibility of having your itemized deductions reduced (phased out) and the Alternative Minimum Tax (AMT) exemption amount increases dramatically in the new tax bill. Those that itemize will find itemized deductions more predictable, creating a possible tax-saving opportunity.

## The Doubling of the Child Tax Credit

Beginning in 2018 the child tax credit (CTC) doubles to \$2,000 per qualifying child. More importantly, the credit is now available to many more people. Note the change in the phaseout amounts.

CTC Phaseout Changes		
	2018-2025	Prior Law
Credit Amount	\$2,000	\$1,000
<i>Income Phaseout Begins</i>		
Married*	\$400,000	\$110,000
Unmarried	\$200,000	\$75,000

\* Note the elimination of the marriage penalty in the new law (married phase out is now double that of two single taxpayers)

While the new bill eliminates the additional child tax credit, it also introduces a new \$500 family credit for other dependents and it makes up to \$1,400 of the credit refundable. In other words, even if you owe no income tax, you can receive money back using the new rules.



## Gone. Gone. Gone.

Here is list of common tax provisions that are now gone until the year 2025.

### Personal exemptions

#### Itemized deduction phase out rules

#### Domestic production activity deduction (DPAD)

#### Additional child tax credit

#### Miscellaneous itemized deductions

#### Most theft and casualty losses (Exception: federal disaster areas)

#### Deduction of home equity interest

#### Moving expenses (except for qualified military)

#### Alimony paid deduction and alimony received income (beginning in 2019)

#### Individual responsibility penalty (beginning in 2019)

Use this list to help identify areas of your return that may change your tax situation.

## Employees' Unreimbursed Expenses

### From tax benefit to expense penalty

Possibly one of the most frustrating parts of the new legislation is the elimination of the deduction for employees who use their own money to pay for expenses that are not reimbursed by their employer. Here's what you can do.

**As an employer.** Establish an accountable plan. This will allow your employees to submit expense reports to get a nontaxable reimbursement for these expenses. Even better, the company can usually deduct the expense.

**As an employee.** Think twice about making these purchases. Talk to your employer to either adjust your pay or reimburse you for your spending.

## The Redefined Kiddie Tax

There are new tax rates applied to interest, dividends and other unearned income for dependent children under the age of 19 (24 if a full-time student).

**Old rule:** The first \$1,050 of unearned income is tax-free; the next \$1,050 is taxed at the child's tax rate. All excess unearned income is taxed at the parent's tax rate.

**New rule:** All unearned income is taxed using the Estate and Trust tax rates (10 percent to 37 percent).

**Impact:** Initial unearned income will now be subject to tax, while higher amounts of unearned income may be at a lower rate than the parents' income tax rate.