TaxUpdate

2018 MID-YEAR NEWSLETTER

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How will the new deduction rules, *lower tax rates, elimination of exemptions and new credits impact your tax situation in 2018? Now is the time for a tax planning review to minimize potential year-end tax surprises.*

Vast Tax Changes Loom in 2018

With the passage of the Tax Cuts and Jobs act in late 2017, your 2018 tax return is in for big changes. Will you be ready? Here are 10 tax code revisions that may require some planning to avoid unpleasant surprises.

ARE YOU *READY?*

Ten Tax Code Revisions

1. *Lower tax rates and expanded income tax brackets*
2. *Elimination of personal exemptions*
3. *Expanded child tax credit and new family credit*
4. *Elimination of most moving expenses*
5. *Elimination of "home equity indebtedness" interest deduction*
6. *Elimination of miscellaneous itemized deductions*
7. *Creation of a new qualified business income deduction*
8. *Expansion of estate tax exemption*
9. *Limitation of state tax deductions*
10. *Changes in the Alternative Minimum Tax and itemized deduction phaseout*

Getting Estimated Payments Right

If you are self-employed or retired and pay your taxes on a quarterly basis, calculating your new tax obligation is going to be a little more complicated in light of the new tax law.

Here are some tips to handle quarterly payments under the new code:

- **Use the safe harbor.** Under the safe harbor rules, withhold at least 100 percent of last year's tax obligation. Just look at what you paid last year and pay the same this year. While you may pay in too much or too little, at least you won't face an underpayment penalty.
- **Take care if your income is over $150,000.** If you cross the $150,000 threshold, the IRS requires your safe harbor payments to be 110 percent of last year's tax amount, rather than 100 percent.
- **Get your estimated payment calculated.** The IRS put up a new withholding calculator on its website in late February that reflects the tax changes. You can use it to calculate your estimated payments based on what you expect to earn in 2018. As long as your estimate for this year comes within 90 percent of your actual tax obligation, you won't face an underpayment penalty. Consider using the calculator if you expect this year's income to be the same or lower than last year's. A word of caution: The IRS does not guarantee its calculator will provide you with accurate results.

Taking the time to make changes now will help you make a smooth transition using the new tax rules and prevent any surprises at tax time next year. If you have any questions or need assistance to determine your quarterly tax payments, please reach out for help.

Be Aware of New Limits

One of the more obscure changes in the Tax Cuts and Jobs Act is the redefinition of the Consumer Price Index for use in setting new limits within the tax code. It means the IRS will be publishing slight adjustments to their annual notices throughout 2018. Here is a list of some changes announced in March 2018:

Changes to Limits

	Limit	Change
Health Savings Account Annual Contribution		
Self	$3,450	–
Family	$6,850	**–$50**
Adoption Credit		
	$13,810	**–$30**
Maximum Earned Income Credit		
No Child	$519	**–$1**
1 Child	$3,461	**–$7**
2 Children	$5,716	**–$12**
3+ Children	$6,431	**–$13**

New 2018 Tax Laws

Confused? You are not alone!

With the rapid passage of the Tax Cuts and Jobs Act, very little time was spent by the IRS to clarify the details within the 500 page tax bill. Here are some common questions and answers that many taxpayers have been asking.

Q Is home equity indebtedness still deductible?

A ***Technically, no.*** *If you have a home* equity loan or line of credit that was used to pay off credit cards or other debts, its interest is no longer deductible. If, on the other hand, you use the funds to buy, build, or substantially improve your home the interest could still be deductible.

Q There is a new 20% qualified business deduction. Does it work for sole proprietors?

A Yes. This deduction is available to sole proprietors and other pass-through entities like S corporations and partnerships. But the complex new rules are causing even seasoned tax experts to pull out their hair. In short, a deduction of up to 20 percent of qualified business income (QBI) is available, but it's reduced if your income exceeds certain thresholds. The full deductibility also depends on whether you're providing a service like a physician or attorney. Expect the IRS to provide some much-needed guidance concerning this provision.

Q Has the marriage penalty gone away?

A Not exactly. The marriage penalty applies to joint filers when both spouses end up paying more tax than they would if each one filed as a single taxpayer. The marriage penalty still exists for taxpayers in upper income tax brackets.

The new tax law also shifts the marriage penalty into itemized deductions. For example, a single taxpayer has the same $10,000 state tax deduction limit as a married couple. This means it's more likely that single taxpayers will be able to benefit from itemizing deductions versus married couples.

Q How have the kiddie tax rules been changed?

A In the past, the unearned income above an annual threshold received by a child under age 19 (or a full-time student under age 24) was generally taxed at the top tax rate of the child's parents. Now instead of using the parents' top tax rate, the tax is based on the rates for estates and trusts. What was not clear was whether a child's initial unearned income could still be exempt or taxed at their (usually lower) tax rate. While the bill's conference report seemed to imply that this provision was eliminated, actual changes in tax code retain this kiddie tax benefit. So unless changed in a technical provision, the threshold for 2018 is $2,100 of unearned income taxed at lower rates.

Q Can you still claim a standard deduction if you're a dependent?

A Yes, despite other related changes to standard deductions. For starters, the new law essentially doubles the standard deduction to $12,000 for single filers and $24,000 for joint filers. As under prior law, if you can be claimed as someone else's dependent, your standard deduction is limited to the greater of (1) $1,050 or (2) $350 plus your unearned income (but not more than the regular standard deduction). The new law doesn't address this rule, so it's generally assumed that it still stands.

Questions about how the TCJA affects your current and future tax plans? Please call.

Tax Preparation: Now More Than Ever

With 500 more tax code pages to sift through, did Congress finally make filing a tax return easier than ever? While many may think so, the tax savvy know it is never as easy as it appears. Taxpayers will need help now more than ever. Here are five great examples.

1. **Alimony is changing.** Alimony will no longer be a valid tax deduction if paid, or be deemed income if received. What does this mean to you?
2. **Small businesses are taxed!** Most of America's businesses are taxed on their owner's individual tax returns. With the dramatic limitation of state tax calculations on individual tax returns, do these small businesses now have a much higher effective tax rate?
3. **States are in a state.** How will states react to the new federal tax changes? This marriage of new federal tax obligations with existing state tax obligations will now be more complicated than ever.
4. **Retirement accounts need planning.** The world of tax efficient retirement planning has not changed. As you remove funds from tax-advantaged accounts, you will often need to pay tax. Why pay more than you need to pay?
5. ***The new world of itemized deductions.*** The planning horizon on itemized deductions did not go away. It simply changed. Are you prepared to adjust your planning horizon to be tax efficient?

> *“Are you prepared to adjust your planning horizon to be tax efficient?”*

Remember to set up an appointment to review your situation using the new rules. The last thing any of us need is a surprise while filing 2018 tax returns.

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

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