Tax Update for Individuals

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Congress recently passed tax legislation that will impact every American taxpayer in one way or another. There are still many questions as to what really changes *for you* under the new law - and the fiscal impact to an individual's bottom-line come tax-time 2019 is still somewhat uncertain. That said, we have put together a list of some of the provisions in the bill that we believe are likely to be of interest to our clients and may affect their personal tax returns beginning in tax year 2018.*

- Individual tax rates will differ as of January 1, 2018. The maximum individual tax rate drops from 39.6% in 2017 to 37% in 2018. *See a full listing of rates below:*

- **Standard deduction/personal exemptions**: The standard deduction almost doubles to $24,000 for married couples and $12,000 for single individuals.
- **Personal Exemption is repealed**: The personal exemption that taxpayers could previously claim for themselves, their spouse and each dependent (of $4,050/person) has been repealed.
- **Itemized Deductions**: The changes to itemized deductions may be some of the more noticeable changes in 2018.
  - The bill limits individual deductions for state and local taxes (commonly referred to as the SALT deduction) for income and the deductions for sales and property taxes paid to $10,000 in the aggregate.
  - That said, the PEASE limitation which reduced the amount deductible for high earners (starting at $320,000 married and $266,700 single) was repealed, making the SALT deduction more widely available to even high income families.
  - Many of the itemized deductions previously available subject to the 2% AGI (average gross income) floor are no longer available in 2018.
- **Capital Gains**: The tax rates for Capital Gains and the exclusion of gains from sale of your primary residence (of up to $500,000 for married couple or $250,000 for unmarried individuals) are both unchanged by the Bill.
- **Medical Expenses**: Medical Expense deductions may be easier to claim, at least for 2017 and 2018, when the floor will be reduced temporarily from 10% AGI in 2017 to 7.5% of the AGI.
- **Mortgage Interest**: Mortgage interest deductions may impact many in this and other high-cost areas as the new law limits the amount of interest that can be deducted to loans of $750,000 or less (this new limit will apply to both married and single taxpayers), while in 2017 it was capped at loan amounts of a million for married couples and $500,000 for single taxpayers. Mortgages issued prior

to December 16, 2017 are grandfathered as are some refinances of grandfathered mortgages.

- **Home Equity Line of Credit (HELOC) Interest**: Interest paid can no longer be deducted for new HELOC loans.
- **Alimony and Separate Maintenance Payments No longer Deductible**: For individuals divorcing in 2019, or later, there is no deduction for alimony or separate maintenance payments. Receipt of alimony and support payments are not treated as income in 2019 and beyond for divorces finalized in 2019 or after.
- **Like-Kind exchanges**: Like-kind exchanges will continue as to real property not held primarily for sale, but will no longer be available for certain types of personal property.
- **529 Plans**: 529 plans, previously only available for post-secondary education (college or graduate school), are now available up to a $10,000/year cap/per student for use for elementary or secondary schooling. This change to the tax code is not scheduled to sunset or expire in 2025.
- **Pass-through deduction for certain businesses**: Under the new law, qualified businesses that are organized as "pass through" entities may receive a 20% deduction on income earned. The top tax rate for pass through entities is also reduced from 39.6% to 37%.
- **Charitable Giving**: Cash gifts to public charities remain deductible.
- **Estate Tax**: The estate, gift and GST tax exemption is increased to approximately $11 million per person (or approximately $22 million for a married couple electing portability). This nearly doubles the existing exemption amount, making federal estate tax a non-issue for the majority of Americans. Note however, several states may still have their own local estate taxes. This provision is however due to sunset and revert back to 2017 rates in 2025. Congress did preserve the "step-up" basis rules, which provide favorable tax treatment for those inheriting real property, stocks, bonds, etc., from an estate or trust.
- **Proof of Insurance Mandate**: the Bill repeals the requirement that taxpayers show proof of health insurance with filing.
- **Child Tax Credit**: Families with children get a boost, as the credit per child increases from $1,000 to $2,000 in 2018. This benefit will now be available to single parents making up to $200,000/year and married couples earning up to $400,000/year.
- **Non-Child Dependent Credit**: Taxpayers may now claim a $500 credit for non-child dependents, which could include elderly parents or adult children (over 17 years of age) with disability.

**NOTE: This should not been seen as an exhaustive review of the legislation, which is very extensive, but rather a sampling of some of the provisions we chose to highlight for the education of our clients. You should not rely on this article for personal tax advice as each individual taxpayer's situation differs.*

***The Tax Bill is generally effective January 1, 2018 until December 31, 2025 unless otherwise amended or noted. However, it will not affect the filing of taxes in 2018 for tax year 2017. Rather, its impact will be seen in 2019, with filing of 2018 taxes.*