

Tax Reform and What it Means for Your Personal Taxes

Dear Client:

President Trump, when he was on the campaign trail, promised that he would push for tax reform legislation. On Dec. 22, 2017, he signed The Tax Cuts and Jobs Act into law, the first major tax reform in 31 years. The new law makes many changes to the tax code. Every taxpayer is impacted. A highlight of the changes follows:

Tax rates. Tax rates are reduced. The top rate is reduced from 39.6% to 37%. Lower rates are also reduced.

Exemptions and the child tax credit. The deduction for personal exemptions is eliminated. An expanded child tax credit will help make up for the loss of personal exemptions for some families. The credit is increased to \$2,000 (from \$1,000) for qualifying children under 17. For children 17 and older and for other dependents, the credit is \$500.

Standard deduction. The new tax reform law doubles the standard deduction. The higher standard deduction (\$12,000 for singles, \$18,000 for heads of household, and \$24,000 for married filing joint) means that fewer taxpayers will benefit from itemizing deductions.

Itemized deductions. Itemized deductions for all state and local taxes, including property taxes, are capped at \$10,000. The limit on mortgage debt for purposes of the mortgage interest deduction is reduced from \$1,000,000 to \$750,000 for loans made after Dec. 15, 2017. Loans made before Dec. 15, 2017 are grandfathered at the \$1,000,000 debt limit. The interest on home equity borrowing is no longer deductible. The threshold for medical expense deductions is lowered to 7.5% of adjusted gross income (from 10%) for tax years 2017 and 2018. Miscellaneous itemized deductions subject to the 2% of AGI limitation are not allowed. Miscellaneous itemized deductions lost because of the new law include employee business expenses, investment adviser fees, union dues, and tax preparation fees. Personal casualty losses are not allowed unless the losses were suffered in a federally declared disaster area.

Alimony. The new tax reform law eliminates the alimony deduction for agreements signed after Dec. 31, 2018. Alimony income is not taxable for agreements signed after Dec. 31, 2018. There is no change to the law for agreements signed before Jan. 1, 2019.

Moving expenses. The new tax reform law eliminates the moving expense deduction and makes employer reimbursement of moving expenses taxable to the employee beginning in 2018.

AMT. The new tax reform law temporarily increases the alternative minimum tax (AMT) exemption for tax years 2018 through 2025. The increase in the exemption, as well as the elimination of major tax preferences (exemptions, state taxes above \$10,000 and miscellaneous itemized deductions), means that fewer people will be subject to AMT under the new law.

Education. The new tax reform law modifies qualified tuition programs - §529 plans. Funds in the 529 plan can now be used to pay for grades K to 12 private school tuition. The above-the-line deduction for college

tuition expenses was renewed in later legislation, but only for 2017. The American Opportunity and the Lifetime Learning credits continue to be available.

Roth IRA conversions. The new tax reform law repeals the special rule permitting recharacterization of Roth IRA conversions. A conversion of a traditional IRA to a Roth IRA may still be advisable, but once the conversion is completed, it can't be undone.

These are just a few of the changes included in the Tax Cuts and Jobs Act. Your 2018 taxes will be affected. That's guaranteed by the scope of the changes. The degree of impact depends on your personal situation.

Questions we can answer for you.

- Will the new tax reform law help me or hurt me?
- Is my withholding enough so that I won't have any surprises next Apr. 15th?
- Is there anything I can do now that will make my taxes less under the new tax reform law?

Please give us a call for answers and planning suggestions.

Sincerely,

Bashore Reineck Stoller & Waterman Inc



BRSW

Bashore Reineck Stoller & Waterman Inc
Certified Public Accountants