# 2018 Changes due to the Tax Cuts and Jobs Act (TCJA)

On December 22, 2017, Congress passed the Tax Cuts and Jobs Act (TCJA) which made widespread changes to the Internal Revenue Code. This is the largest change to the tax code since the Tax Reform Act of 1986 and will affect everyone's tax return. The intent of the law is to lower your tax liability, putting more money into your pocket, and to 'simplify' the process of filing by eliminating or modifying many popular deductions and credits. The effect of the law for many will actually be a more complex and confusing return.

**While most taxpayers will have a reduced tax liability, this may NOT result in a larger refund or lower balance due. In an attempt to get the potential tax saving to you immediately, the IRS changed the tax withholding charts in 2018, reducing the amount of federal taxes taken out of your wages or pensions. Unfortunately, for many taxpayers, this reduction in withholding was too 'aggressive', resulting in more additional tax home pay than the tax savings they were entitled to.**

Last summer, we notified all clients of this situation and requested that you allow us to do a tax review. For those who took advantage of this, we were able to make corrections to your withholding to avoid any surprises or disappointment at tax time. For those who did not take advantage, you may be surprised or disappointed with the result of this year's tax return. Based on the result of your 2018 tax return, we will make recommendations for any adjustments for 2019 and beyond. Listed below are some of the more common changes that could affect your tax return.

## Changes affecting most taxpayers

**Federal withholding requirement reduced on wages and some pensions.** This was to allow taxpayers to receive a portion of their potential tax savings throughout the year. Unfortunately, in many cases the change was too aggressive. This may result in lower refunds and/or increased balances due.

**Personal exemption rate reduced to zero.** Prior to 2018, a personal exemption of over $4,000 per person could be used to reduce taxable income. This personal exemption amount has been reduced to zero for 2018 through 2025.

**Standard deduction increased.** The standard deduction for most returns has been almost doubled over the amount that was allowed last year. The deduction for Single and Married Filing Separately returns is $12,000, Head of Household returns is $18,000, and Married Filing Jointly returns are $24,000. The additional amounts for over 65 and blind will still be allowed. Because of this change, this year many taxpayers may find that claiming the standard deduction instead of itemizing will give them a lower tax.

**Child Tax Credit (CTC) increased.** The CTC has been increased from $1,000 to $2,000 for 2018. The modified adjusted gross income threshold where the credit is phased out is $400,000 for joint filers and $200,000 for all others, so many more taxpayers will be able to claim this credit. The maximum age for a child to be eligible for the credit remains 16 ( at the end of the tax year.)

**New Credit for Other Dependents (ODC).** Beginning in 2018, a new $500 credit is available for dependents who do not qualify for the CTC. Most dependents listed on the return who do not qualify for the CTC will now qualify for the smaller ODC, including parents who are claimed as dependents.

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## Changes to itemized deductions

**Deductions for employee business expenses eliminated.** One of the biggest changes under this new law was the elimination of the deduction for unreimbursed employee business expenses beginning with 2018 tax returns. This effectively means that employees will no longer be able to offset their taxable income by the common business expenses they incur. (This change under TCJA does not affect self-employed individuals.)

**State and local taxes (SALT).** There is a cap on the deduction for state and local taxes paid. The deduction for state and local taxes, real estate taxes, and personal property taxes combined is limited to $10,000 per return, ($5,000 for Married Filing Separately returns).

**No deduction for home equity loan interest.** No matter when the indebtedness occurred, you can no longer deduct the interest paid on home equity loans or lines of credit unless the proceeds were used to buy, build, or improve the home secured by the debt. Documentation will be required. Equity debt used for business or investment property will still qualify.

**Limitation on home mortgage interest.** You may be able to deduct mortgage interest only on the first $750,000 ($375,000 MFS) of indebtedness. Higher limitations apply if you are deducting mortgage interest from indebtedness incurred on or before December 15, 2017.

## Additional changes.

**Healthcare penalty repealed for 2019.** Beginning for tax years ending after 2018, individuals who fail to carry health insurance will no longer be required to pay an individual shared responsibility payment with their tax return.

**Alimony.** Beginning with divorces finalized after January 1, 2019, alimony will no longer be deductible to the payor or included in the income of the recipient. This also applies to decrees substantially changes with regards to alimony after January 1, 2019.

**Moving expenses.** Beginning January 1, 2018, moving expenses cannot be deducted by most people. Active duty military who move pursuant to a military order and incident to a permanent change of station can still deduct moving expenses and exclude reimbursed moving expenses from income. Additionally, most taxpayers cannot exclude employer reimbursements or payments for moving expenses from their income.

**Qualified Business Income Deduction (QBID).** A new deduction for qualified business income from a trade or business, including sole proprietorships, S Corps, and partnerships, is available on Form 1040. QBI does not include W2 wages. The deduction is subject to many limitations, such as income level and type of business. If you have QBI, you can reduce your taxable income, whether you itemize deductions or claim the standard deduction. In its simplest form, if AGI is under $157,500 ($315,000 for joint filers).

**Alternative Minimum Tax (AMT).** Fewer taxpayers will be subject to AMT due to increased exemption amounts and phase-out thresholds.