Spotlight 15 personal tax changes

The Tax Cuts and Jobs Act (TCJA) enhances and creates numerous tax breaks for individual taxpayers, but repeals or scales back a slew of others.

Alert: Although the provisions for individuals are generally effective in 2018, most are scheduled to sunset after 2025.

It's going to take time to sort out all the details, but here are 15 key items on the agenda.

1. Cash in on tax cut bonanza. The new law revamps the individual tax rate structure by reducing rates and expanding brackets for upper-income taxpayers.

Previously, the seven tax rates for individuals were 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. Under the TCJA, the new rates are 10%, 12%, 22%, 24%, 32%, 35% and 37%.

In addition, the new tax law changes the Consumer Price Index used for inflation adjustments, producing smaller inflation adjustments than before.

Tip: The new law preserves favorable tax treatment for long-term capital gains and qualified dividends.

2. Embrace the standard deduction. When you file your personal tax return, you have a choice between claiming the standard deduction and itemizing deductions. Now the new law almost doubles the standard deduction to $12,000 for single filers and $24,000 for joint filers. It also preserves the additional standard deductions for the elderly and blind.

Due to the higher standard deduction and related changes, such as the elimination and cutbacks of certain itemized deductions (*see below*), more upper-income taxpayers are likely to claim the standard deduction in 2018.

Tip: The increase in the standard deduction is offset somewhat by the loss of personal and dependent exemption deductions.

3. Don't take it personally. Previously, you could claim a personal exemption for yourself, your spouse (if married) and each of your qualified dependent children or qualifying relatives. Each exemption was scheduled to be $4,100 in 2018. Now the new law eliminates all personal exemptions, including those for dependent children and relatives.

Tip: In conjunction with this change, the personal exemption phaseout rule for higher-income taxpayers is repealed.

4. Keep it all in the family. The new law doubles the child tax credit (CTC) for each qualifying child from $1,000 to $2,000. Of this amount, $1,400 is "refundable" under a late amendment to the law. The TCJA also creates a new $500 credit for nonchild dependents.

Existing credits for adoption expenses and dependent care expenses are retained.

7600 Leesburg Pike, Suite 300, Falls Church, VA 22043-2004 (800) 543-2002

Tip: The new nonchild dependent credit isn't available if you claim the CTC.

5. Give 'til it hurts. If you expect to itemize deductions in 2018, despite the aforementioned changes, you can still benefit from the deduction for charitable donations. Generally, the deduction remains intact, although the new law did make these modifications:

- Previously, the annual deduction for cash donations to public charities was limited to 50% of adjusted gross income (AGI). The TCJA increases this limit to 60% of AGI.
- The tax rule allowing donors to deduct 80% of the cost of donations paid to obtain the right to preferred seating at college athletic events is repealed.
- Substantiation requirements for cash gifts were relaxed if a charity provided the requisite information to the IRS. This exception no longer applies.

Tip: When appropriate, continue to donate appreciated property to maximize your deduction.

6. Salvage mortgage interest deduction. Prior to the new law, the deduction for mortgage interest was limited to interest paid on the first $1 million of acquisition debt for a primary residence and one other home. In addition, you could deduct interest paid on the first $100,000 of home equity debt.

For loans after Dec. 15, 2017, the limit for home acquisition debt is reduced to $750,000. Also, you can no longer deduct any interest on home equity debt after 2017.

Tip: The $1 million acquisition debt limit for prior loans is grandfathered.

7. Rub SALT into wound. The new law significantly reduces the deduction for state and local taxes (SALT) claimed by itemizers. In short, your SALT deduction can't exceed $10,000 a year for any combination of (a) state and local property taxes and (b) state and local income taxes or sales taxes. Presumably, the prior rules for deducting sales tax based on actual receipts or the IRS table still apply.

Tip: This provision is especially damaging to residents of states such as California, New York and New Jersey where property taxes or income taxes, or both, are high.

8. Prescribe a medical deduction. Prior to the Affordable Care Act (ACA)—the law known as Obamacare—you could deduct medical and dental expenses exceeding 7.5% of your AGI. The ACA raised the threshold to 10% of AGI (with a temporary reprieve for senior citizens). Now the new law revives the lower 7.5%-of-AGI threshold for the 2017 and 2018 tax years.

In other words, this tax change is retroactive. It may benefit you when you file your 2017 return this year.

Tip: Search your records to find medical and dental expenses that can put you over the top.

9. Lock in alimony deductions. Currently, alimony payments are deductible by the payer, and constitute taxable income to the recipient. In contrast, child support payments are neither deductible nor taxable.

Under the new law, alimony payments are no longer deductible. Accordingly, alimony payments received by a divorced or separated spouse aren't taxable.

Tip: This provision doesn't take effect until 2019. For agreements executed before 2019, the current rules will continue to apply.

10. Review education tax breaks. Although the new law doesn't revive the tuition-and-fees deduction, which expired after 2016, it preserves the two tax credits for higher education. Both the American Opportunity Tax Credit and the Lifetime Learning Credit remain intact. The TCJA also retains the above-the-line deduction for student loan interest.

Furthermore, use of Section 529 plans is expanded. You can take tax-free 529 account withdrawals of up to $10,000 annually to cover qualified expenses for kindergarten through 12th grade at public, private or religious schools.

Tip: An amendment allowing Section 529 plans to cover home schooling costs was stricken from the law.

11. Wave goodbye to other deductions. Though the new law spares the full deduction for charitable donations, many other cherished write-offs are eliminated. The list of deductions that won't be available after 2017 include:

- Casualty and theft losses, except for federal disaster-area losses
- Job-related moving expenses, except for active duty military personnel
- Investment expenses
- Miscellaneous expenses subject to a 2%-of-AGI limit.

Tip: The new law preserves deductions for IRA contributions, gambling losses (with modifications) and educator expenses, among others.

12. Sidestep the AMT. The dreaded alternative minimum tax (AMT) isn't as imposing as it was in the recent past. Under the new law, exemption amounts are increased along with the thresholds for phasing out those exemption amounts. The revised exemption amounts for 2018 are as follows:

Status	Scheduled Amount for 2018	After TCJA in 2018
Single filer	$55,400	$70,700
Joint filer	$86,200	$109,400

The threshold for phasing out exemptions is hiked to $500,000 for single filers and $1 million for joint filers. As a result of these changes, millions of taxpayers who were hit by the AMT in 2017 will be able to avoid it in 2018.

Tip: The AMT tax rates remain unchanged at 26% and 28%.

13. Be sure about Roth conversions. If you convert assets in a traditional IRA to a Roth IRA, qualified future distributions may be completely tax free. But there's a price to pay for this privilege: The conversion is currently taxable based on your account balance on the conversion date.

In the past, you could recharacterize a Roth back into a traditional IRA if desired. For instance, if the account value dropped, you could undo the conversion to avoid tax on the higher account value. The deadline was your tax return due date, plus extensions.

Beginning in 2018, the new law eliminates this technique. Roth conversions can't be recharacterized (reversed) anymore, so think twice—or three times—before committing to a conversion.

Tip: It's not yet clear whether you can still recharacterize a 2017 conversion in 2018.

14. Keep swapping real estate. If you engage in an exchange of like-kind properties, there's no tax due on the swap, except to the extent you receive "boot" in the deal. This has been especially popular for real estate, but was also used for other investments like classic cars and boats.

The new law limits this technique to real estate transactions, beginning in 2018.

7600 Leesburg Pike, Suite 300, Falls Church, VA 22043-2004 (800) 543-2002

Tip: Investors can still use qualified intermediaries to facilitate real estate swaps.

15. Pay final respects to ACA penalty. The TCJA abolishes the individual health insurance mandate under Obamacare, but not until 2019. So this is the last year you may owe a penalty under this provision. The penalty for 2018 is generally the higher of $695 or 2.5% of household income. Retain Form 1095s as proof of your health insurance coverage.

Tip: The new law doesn't address the other taxes created by the ACA, including the 3.8% tax on "net investment income" and the extra 0.9% Medicare tax on wages and self-employment income.

7600 Leesburg Pike, Suite 300, Falls Church, VA 22043-2004 (800) 543-2002