Last chance for 6 deductions

The new Tax Cuts and Jobs Act (TCJA) cuts individual tax rates and increases the standard deduction, while eliminating or scaling back some prized tax deductions. Generally, the changes take effect in 2018 and sunset after 2025, unless Congress takes further action.

Alert: This may be the last year you get the full tax benefit of certain tax deductions.

These “last-chance deductions” can be claimed on your 2017 return—due by April 17, 2018—under the prior-law rules.

Notably, the increased standard deduction will result in fewer taxpayers benefitting from itemized deductions—including those still allowed for charitable donations and medical expenses—after 2017. With that in mind, here are six top deductions on the endangered species list for 2018 but still on the books for your 2017 return.

1. Latch onto mortgage interest. Under prior law, you can write off mortgage interest paid on:

- The first $1 million of acquisition debt (e.g., a mortgage to buy or build a qualified residence—your principal residence and one other home, like a vacation home), and
- The first $100,000 of home equity debt for a qualified residence.

The new law reduces the acquisition debt ceiling to $750,000 for loans made after Dec. 15, 2017. In addition, the deduction for home equity debt is repealed

However, prior loans are “grandfathered” for purposes of the acquisition debt threshold. Therefore, you may be able to continue to deduct the full amount of your mortgage interest in the future, depending on your circumstances.

Tip: The grandfather provision also applies to refinancings up to the amount of the existing debt.

2. Mix in miscellaneous expenses. On your 2017 return, you can deduct a hodgepodge of miscellaneous expenses—including investment and tax advisory fees and unreimbursed employee business expenses—to the extent they exceed 2% of your adjusted gross income (AGI). For instance, if your AGI for 2017 is $100,000 and you have $5,000 in miscellaneous expenses, your deduction is $3,000.

The new law repeals this miscellaneous expense deduction after 2017. Beginning in 2018, you get no deduction, regardless of your AGI.

Tip: You can write off tax return preparation fees as a miscellaneous expense in 2017.

3. Pour SALT on your return. One of the most controversial provisions in the TCJA imposes a dollar limit on the deduction for state and local taxes (SALT).

Prior to the new law, you could deduct the full amount of your:

- State and local taxes; and
- State and local income taxes (or state and local general sales taxes if you choose to deduct them instead of income taxes).

Under the new law, your deduction is limited to an annual total of $10,000 for any combination of these taxes, beginning in 2018.

For 2017 returns, however, residents of high-tax states can still choose to write off their income taxes while those who owe little or nothing for state income taxes can opt for the alternative sales tax deduction. The sales tax deduction can be based on actual expenses or the amount a state-by-state table provided by the IRS.

Tip: If you use the table amount, you can add actual sales tax amounts for big-ticket items like cars and boats.

4. Salvage a casualty loss deduction. The tax rules in effect for 2017 allow you to deduct personal casualty and theft losses to the extent they exceed 10% of AGI, after first subtracting $100 per event. For instance, if your AGI is $100,000 and you suffer uninsured losses of $15,000 due to a house fire, your deduction is $4,900.

The new law eliminates deductions for personal casualty and theft losses except for losses in an area declared by the president as a federal disaster area under the Stafford Act.

Tip: If you have a deductible loss in a federal disaster area, you can elect to claim it on the tax return for the year preceding the year of the loss. This is still true under the new law.

5. Make your tax move. Under prior law, you can deduct job-related moving expenses if you pass a two-part test involving “distance” and “time.”

The new law repeals this deduction, beginning in 2018, except for moving expenses of active duty military personnel.

Assuming you pass the test on your 2017 return, you can write off reasonable costs of moving household goods and personal effects to your new home, plus travel expenses (including lodging, but not meals).

Tip: In lieu of actual car expenses, you may use a flat rate of 17 cents per mile for 2017.

6. Produce a Section 199 deduction. Under Section 199 of the tax code, you can deduct domestic production activity expenses, up to certain limits. The deduction is equal to 9% of “qualified production activities income” (QPAI) after a complex calculation. Typically, the Section 199 deduction is available to manufacturing firms, as well as certain taxpayers in the construction, engineering and architecture fields.

The new law repeals the Section 199 deduction, beginning in 2018. So your return for last year is your last chance to claim it.

Tip: The deduction is available to C corps, owners of pass-through entities (e.g., S corps and partnerships) and sole proprietors.

Still time for alimony deductions

The deduction for alimony payments is also going away, but not quite yet. It is still available for divorce and separation agreements entered into before 2019.

Strategy: Incorporate this into a new agreement. For example, if you’re divorcing and arrange to pay alimony on an agreement signed this year, it can still be deducted for 2018 and beyond.

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On the flip side, alimony is taxable if you receive it in 2017. This rule is eliminated for alimony payments required under post-2018 agreements.

Tip: The TCJA changes for alimony are permanent.

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