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How Will the New Tax Bill Affect You? – Sandi Weaver, CPA, CFP®, CFA®

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Do you have less than $11,200,000? Good news! You won't have to pay estate taxes! But let's assume that wasn't worrying you before, when the cutoff was at $5 million.

What else is in that tax bill?

Grab your 2016 tax return, and let's walk through how things might look for 2018, if we assume your figures don't change that much year to year.

Your tax rate is likely going down – both the marginal and the average. On the other hand, you'll lose the deduction for personal exemptions which you see on page 1 of your Form 1040.

For example, let's say you're married filing joint, and your income was $100,000. That's between $75,900 and $153,100 and under the old law, you'd pay at a 25% marginal (top) tax rate. Under the new bill, you're paying a top 22%, since you're between $77,400 and $165,000. Or, let's say your income was $250,000. Under the old law you paid a top 33%. Under the new bill you pay a top 24%. In both examples you lose the $8,100 personal exemptions under the new bill. If you'd like a pdf of the tax bracket changes, please email LaDonna at LaDonna@PetrovicWeaverFinancial.com.

Towards the top of page 2 of your Form 1040, you'll see the total itemized/standard deductions you took. Most of our clients itemize deductions, so the amount shown is over the $12,700 standard deduction. Under the new bill, you can use the new $24,000 standard deduction, or itemize if that's greater.

You'll want to know now whether you'll be itemizing or not in 2018, so review your most recent Schedule A.

Let's start at the top section. "Medical and Dental Expenses" which exceed 7.5% of your AGI (adjusted gross income) are deductible. That deduction is uncommon, but you can do the math to see if you'll have something to deduct.

The "Taxes You Paid" section on Schedule A covers deductions for state and local taxes, from income tax, real estate tax, and personal property tax. If your Schedule A shows $8,000 in these taxes, count that. If it shows $12,000 in these taxes, you can only use $10,000.

"Interest You Paid" still gives you a deduction, but you cannot increase that over $750,000 in mortgage balances. Nor can you deduct interest on home equity loans anymore.

The next section on Schedule A handles "Gifts to Charity". Those remain deductible. (The maximum cap increases from 50% to 60% but that impacts few people.)

"Casualty and Theft Losses" are next, affect few people, and have been restricted to federally-declared disasters.

The entire section for miscellaneous deductions (labelled Job Expenses and Certain Miscellaneous Deductions, and Other) is gone, so you cannot deduct costs for job hunting/education, tax preparation/advisor fees, or unreimbursed employee expenses.

Most people can add the "taxes you paid", the "interest you paid", and the "gifts to charity" to get potential deductions for 2018. If that exceeds $24,000 for joint filers or $12,000 for single filers, you can probably still itemize in 2018.

- If you have deductions on this page which you'll no longer be deducting, then ask your CPA if you have other options in deducting those. For example, that safe deposit box rental might also be used for your rental house and be a validly deductible expense on your Schedule E. If you are taking minimum required distributions from your IRA, you can consider paying a portion of your financial advisory fees from that account rather than writing a check; it's a tax-free distribution then. If you're using a home equity loan, consider paying that off or using a second mortgage instead.
- Think about bunching deductions into alternate years. Let's say you have $8,000 in taxes paid, $9,000 in interest, and $5,000 in charitable gifts. That'll total $22,000. If you're married filing jointly, you can take the standard deduction of $24,000, the higher amount for 2018. But consider shifting $2,000 of your taxes paid from late in 2018 to January 2019, and giving $10,000 in January 2019 to cover both 2018 and 2019 commitments. That'll let you bunch itemized deductions in 2019 to $29,000, with $10,000 taxes paid ($2,000 shift plus $8,000 normal amount), $9,000 in interest, and $10,000 gifts ($5,000 shift plus $5,000 normal amount).

The Pease limitation is gone. Yeah! If you had income over $157,000, your itemized deductions were often "limited". Check the very bottom section of your Schedule A. If the "Yes" box was checked, add up all numbers between line 4 at the top, and line 28 by "Other Miscellaneous Deductions". That total was greater than the final deductible amount on the bottom line. You lost some of those deductions. That invisible haircut has now evaporated. If you can itemize, you can deduct every dollar.

- Consider using Qualified Charitable Distributions (QCDs) up to the amount of your minimum required distribution from your IRA for charitable gifts. This makes sense particularly if you're using the new standard deduction in every year, and not itemizing. If you're itemizing, a QCD may still benefit you if less of your social security is taxed.

For those of you who have a number on line 45 Alternative Minimum Tax, you may be lucky. The exemption increased from $86,200 up to $109,400 for joint filers, and similarly for others.

Under the odds and ends category, 529 college savings plans will now allow a $10,000 withdrawal per year for students in K-12. The child tax credit moved from $1,000 to $2,000. After 2018, those paying maintenance/alimony no longer get a deduction for that while those receiving same no longer classify it as income.

For those getting income from a pass-through entity such as a partnership, S-Corp, or sole proprietorship, you can deduct 20% of business income before paying tax; it's phased out for higher income earners. Your business can no longer deduct entertainment expenses, just meals.

In a nutshell, most folks will pay slightly lower taxes under the new bill. The IRS is not recommending any changes to W-4 withholdings right now due to the new bill. If you're using safe harbor now to make

estimated tax payments during the year to match the taxes due on the prior year, you'll want to continue that. Once we have all filed for 2018, in April 2019, we'll get a chance to see the final impact.

If you would like more information on this topic, we will be happy to send you summaries that we resourced. Please email LaDonna at LaDonna@PetrovicWeaverFinancial.com.