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2018 Tax Law Changes

The Tax Cuts and Jobs Act (TCJA) was passed at the end of last year and has altered the tax landscape for many of individuals and businesses for tax years beginning in 2018. The changes are extensive, and this letter only provides a broad overview of some of the highlights to keep you informed.

Individual Tax Highlights

There are still seven tax brackets, 10%, 12%, 22%, 24%, 32%, 35% and 37%, prior rates were 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. The tax rates applicable to net capital gains and qualified dividends did not change.

Rate	For Unmarried Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
10%	$0	$0	$0
12%	$9,525	$19,050	$13,600
22%	$38,700	$77,400	$51,800
24%	$82,500	$165,000	$82,500
32%	$157,500	$315,000	$157,500
35%	$200,000	$400,000	$200,000
37%	$500,000	$600,000	$500,000

The new standard deductions are:

- Heads of household: $18,000
- Married filing jointly: $24,000
- All other taxpayers: $12,000

The increased standard deduction is effective through Dec. 31, 2025.

The new Federal withholding tables were designed to reflect the new lower tax rates by reducing tax withholding, giving you a bigger paycheck throughout the year. Unfortunately, the new tables may have not withheld enough tax in some situations, causing you to owe tax when filing your return. The IRS has a withholding calculator at www.irs.gov/withholding that can be used to perform a quick “paycheck checkup”.

In the past, taxpayers received an exemption for themselves, their spouse and each of the eligible dependents that they claimed on their tax return ($4,050 each in 2017). The TCJA eliminated these exemptions through Dec. 31, 2025. Child and family tax credit The TCJA increased the child credit for children under age 17 to $2,000 and introduced a new $500 credit for a taxpayer’s dependents who are not their qualifying children. In addition, the phase-out limits for these credits have increased to $400,000 for joint filers ($200,000 for others), so that more individuals will be able take advantage of this credit.

The overall phase out of itemized deductions has been repealed Medical expenses are deductible by the amount the expenses exceed 7.5% of adjusted gross income for 2018 (limit changes to 10% starting in 2019).

The itemized deduction for state and local income, real estate, and sales taxes is limited to a total of $10,000 ($5,000 for those using the filing status of married filing separately). For example, if you paid $15,000 in state income taxes and $6,000 in real estate taxes on your home ($21,000 in total), you would not be able to deduct the $11,000 that exceeds the deduction threshold since the tax deduction will be limited to $10,000.

Mortgage interest on loans used to acquire a principal residence and a second home is only deductible on debt up to $750,000 (down from $1 million). Loans in existence on December 15, 2017 are grandfathered (balance up to $1 million still allowed). Interest on home equity indebtedness (such as a home equity line of credit) is no longer deductible unless the debt is acquisition indebtedness (used for home improvement or acquisition). Interest on debt used for vacations, credit card consolidation or buying a new car is no longer deductible. Interest on debt used for business or investment purposes may be deductible in a different category (not as an itemized deduction). Be sure to track the use of your debt.

Cash donations to public charities are now deductible up to 60% of adjusted gross income. Donations to colleges and universities for ticket or seat rights at sporting events are no longer deductible.

Miscellaneous itemized deductions, such as investment management fees, tax preparation fees, unreimbursed employee business expenses and safe deposit box rental fees are no longer deductible. Taxpayers with unreimbursed employee expenses (mileage, home office, etc.) may be hit hard by this change. Consider discussing the possibility of reimbursement from your employer if you have unreimbursed work expenses.

Under the prior law, individuals who paid alimony to an ex-spouse received a deduction for the alimony paid, while the individuals receiving the alimony treated those payments as income. Tax reform has eliminated the deduction for alimony paid and the recognition of income for alimony received effective for divorce decrees executed after Dec. 31, 2018.

The TCJA repealed the individual shared responsibility payment for failure to have minimal essential healthcare coverage. However, this repeal does not take effect until Jan. 1, 2019. This means that if you did not have minimal essential healthcare coverage in the 2018 calendar year, you will still be subject to the penalty if you do not meet one of the exceptions from coverage.

State taxes become more complicated because of TCJA. The TCJA resulted in sweeping changes to federal taxes and resulted in a significant number of changes to many state tax returns. The higher federal standard deduction will result in some taxpayers no longer itemizing, although it may still be advantageous to itemize deductions on many state tax returns.

The new form 1040 individual tax form has been successfully reduced in size, however many new schedules have been created, which may complicate tax filing. In addition, many more differences exist between the federal and state returns, since many states do not follow the new federal laws. The recurring theme in our continuing education classes this year has been the 20% increase in time we can expect to properly complete your tax return.

Business Tax Highlights

A new deduction, effective for tax years 2018 through 2025, was introduced in the TCJA that allows individuals a deduction of 20% of qualified business income from a partnership, S corporation or sole proprietorship, as well as 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership income. This deduction will reduce taxable income, but not adjusted gross income, and is available regardless of whether you itemize your deductions. There are many limitations and restrictions to this provision.

The prior-law graduated corporate tax rates have been consolidated into one 21% flat rate. The separate rate for personal service corporations of 35% has been repealed. These changes are effective for tax years beginning after Dec. 31, 2017.

The TCJA repealed the deduction for business entertainment. This includes expenditures such as taking clients to sporting events or shows and paying for season tickets for various entertainment events. The deductibility of meals has changed in many cases under TCJA. Client meals where no business is conducted are not deductible. Client meals where business is conducted, documented, not extravagant or lavish and the taxpayer is present are 50% deductible. Business travel meals remain 50% deductible. Meals provided to employees, such as overtime meals, used to be 100% deductible and now are only 50%, while office holiday parties remain 100% deductible. Water, coffee and snacks at the office also went from 100% to only 50% deductible. It is very important to have your company's internal accounting set up appropriately to identify these expenses and treat them correctly on your tax return.

The new tax reform bill has increased the bonus depreciation percentage to 100% until 2023, where it will decrease by 20% until it reaches zero. Bonus depreciation is now available for both used and new qualified assets. The Sec. 179 expense limit is now $1 million of allowable expensing with a total purchase threshold of $2.5 million. If you purchase more than $2.5 million in eligible fixed assets during the year, you will see a reduction in the amount you can expense under Sec. 179.

The new tax law restricts a trade in or like-kind exchange to real property (e.g., buildings and land). Under the prior law, you could trade in a business vehicle or equipment for similar property and defer the gain, but no longer. Be aware of this change especially when you are trading older business vehicles and equipment which could result in tax now while in prior years it didn't. Please include all invoices for asset purchases with your tax information this year.

There was a landmark Supreme Court case this summer that gives states greater power to impose sales tax on e-commerce. Previously, sellers with no physical presence in the buyer's home state did not have to collect sales tax. The supreme court agreed with South Dakota's internet sales tax law. The law requires remote sellers with at least $100,000 in sales or 200 or more transactions annually in South Dakota to collect South Dakota sales tax from buyers in the state. Many states are taking South Dakota's lead and expanding their sales tax reach.