570 Beachland Blvd.
Vero Beach, FL 32963

Offutt Barton Schlitt LLC
CERTIFIED PUBLIC ACCOUNTANTS
A History of Professional Commitment

P: (772) 231-2100
F: (772) 234-4333

Website: CPAVeroBeach.com

2018 Tax Law Update – December 7, 2017

Professional services include:

- Tax Compliance
- Audit & Assurance
- Litigation Support
- Estate & Gift
- Succession Planning
- Valuation
- IRS Representation
- Family Foundations
- Bookkeeping & Accounting

Our mission is to provide our clients with exceptional services by taking initiative to be proactive advisors. We pride ourselves in developing tailored strategies to meet the specific needs of our clients.

We have a diverse commercial and individual accounting, auditing, tax and business consulting practice.

Our partners and staff are available to meet the needs of our clients and offer to meet with owners and management periodically throughout the year to discuss plans and to consult on a broad range of financial and business topics.

Changes to Tax Law for Year 2018

The news has been full of reports about the sweeping tax changes recently passed through the U.S. House and Senate. The Senate passed their version of this tax bill on December 2, 2017. These tax law changes are proposed to start with the 2018 tax year. The results of the final bill are yet to be determined, as the House and Senate versions must be reconciled before going to the president for signature; however, there are certain changes that the bills have in common.

This summary discusses some of the proposed changes for your reference:

Personal exemptions would be eliminated. Instead of exemptions for children, the child tax credit would be expanded.

The standard deduction would be increased to $24,400 for married people and one-half of that amount for singles. This will dramatically reduce the number of people who itemize deductions. ***If you were planning to use the bunching technique and not itemize for year 2017, instead paying real estate taxes and charitable contributions in 2018, please call us as this plan may need to be changed.***

The combination of the changes in the standard deduction and elimination of the personal exemptions means that a single person gets an increased deduction of $1,800 and married couples, twice that, $3,600.

Tax rates for most taxpayers would be reduced.

Business income from certain pass-throughs such as S corporations and active partnerships may get preferential income tax treatment and C corporations would be taxed at 20%.

Itemized deductions will have a number of changes:

- **Real estate taxes** would be capped at $10,000 and no deduction would be allowed for sales taxes or income taxes. In Indian River County, the real estate tax rate is about 1.7% so this reduction for real estate tax deductions would likely affect houses with taxable values of $600,000 or more. Those with vacation homes will also be affected.

- **Home mortgage interest** could be limited to $500,000 of principal. Additionally, no second home interest would be deductible. Home equity loan interest would no longer be deductible as well. This applies to loans made after November 2, 2017. Principal residence loans that were in place before November 2, are grandfathered and the present law will continue to apply. The vacation home and home equity loans are not grandfathered.

- **Charitable gifts** of cash would have a 60% of Adjusted Gross Income limit. The deductibility of donations for priority seating at college athletic events may no longer be allowed. Further, we would find more use of donor advised funds to receive five years of expected charitable gifts to "bunch" the charitable deduction and itemize every five years. The use of appreciated stock to fund this charitable gift will become even more popular. Call us to determine if you should act before the end of the year while our present law applies.

- The use of **IRA Qualified Charitable Distributions** would be even more important as one need not itemize to use this tool. Such distributions cannot be to a donor-advised charity, rather they are made to the charity you intend to support at the time.

- The **deduction for tax preparation fees and employee expenses** would be eliminated; however, the deduction for investment management fees and other expenses of producing income is not being changed. If you would benefit from the deduction in 2017, you may want to consider paying your tax preparation fees this year, since the deduction may not be available in 2018. You will still be able to deduct tax preparation fees for a business or rental property as previously allowed.

- There may no longer be a reduction of itemized deductions for high-income taxpayers.

Some differences between the two bills that need to be reconciled include:

Treatment of alimony income: Under the House bill, alimony income would no longer be taxable, nor would these payments be deductible. This would likely apply to new alimony arrangements with the previous ones retaining the same income and deduction characteristics.

Alternative Minimum Tax: The Senate bill increases the exemption for the alternative minimum tax (AMT), the House bill eliminates the AMT.

Estate Tax Exemption: The estate tax exemption may increase to around $11,000,000 per person.

Health Insurance Mandate: The Senate bill would repeal the mandate for individual health insurance.

Medical Deduction: The House bill calls for an elimination of the itemized medical deduction.

Nothing is certain except death and taxes; however, we'd be happy to talk with you about the effect of the new tax law on your individual taxes.

This tax law update information is being sent to you to encourage you to utilize all the opportunities the tax law provides to minimize your 2018 taxes as well as offer suggestions for longer range planning. If you are interested in a tax planning appointment, call our office to discuss these matters further.