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A History of Professional Commitment

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2018 Tax Law Update

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

On December 22, 2018, President Donald Trump signed a sweeping $1.5 trillion tax cut bill into law. Many of the tax law changes will begin to take effect in 2018, while some are deferred to later years. Additionally, some of the changes are permanent and some are set to expire. The results of this bill are yet to be determined, as the top minds in the country are working to interpret and plan for the implementation.

This summary discusses some of the law changes.

Personal exemptions are eliminated. Instead of exemptions for children, the child tax credit is expanded.

The standard deduction will go to $24,000 for married people and one-half of that amount for singles and married filing separately. This will dramatically reduce the number of people who itemize deductions. ***For those planning to use the bunching technique, instead paying real estate taxes and charitable contributions gradually, they should revisit as their strategy may change.***

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 $1,600 and married couples twice that, $3,200.

Tax rates for most individuals, trusts, and estates will be reduced. The corporate tax rate is now a flat 21% rate.

Pass-through business income for certain non-corporate taxpayers, such as S corporations, partnerships, and sole proprietors, will get a deduction of 20% of their qualified business income.

Itemized deductions will have a number of changes:

- **Tax expense deductions** are capped at $10,000. This cap relates to the sum of all deductible taxes including real estate tax, state income tax, and sales tax. 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.

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- **Home mortgage interest** is limited to $750,000 of principal on loans made after December 14, 2017. Additionally, second home interest and non-acquisition indebtedness HELOC interest is no longer deductible. Principal residence loans that were in place before December 15, 2017, are grandfathered and the 2017 law will continue to apply. The vacation home and home equity loans are not grandfathered.

- **Charitable gifts** of cash will have a 60% of Adjusted Gross Income limit. The deductibility of donations for priority seating at college athletic events is no longer allowed. Further, taxpayers may 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.

- The **deductions for investment advisory fees, non-business tax preparation fees, employee expenses, and other 2% floor expenses** are eliminated. You will still be able to deduct tax preparation fees for a business or rental property as previously allowed.

- There is **no longer a reduction of itemized deductions** for high-income taxpayers.

- **Medical Deduction**: The medical deduction is still allowable, and the limitation is 7.5% for all taxpayers.

Moving Expense: There is no longer a deduction allowed for moving expenses.

IRA Qualified Charitable Distribution: The use of QCDs will be even more important as one need not itemize to use this tool. Such distributions cannot be to a donor-advised charity, rather they must be made directly to the charity at the time of donation.

Qualified Domestic Production Deduction: The qualified domestic production deduction is eliminated.

Kiddie Tax: The kiddie tax rules are now simplified. Taxable income of a child attributable to earned income is taxed under the rates for single individuals, and taxable income of a child attributable to net unearned income is taxed according to the brackets applicable to trusts and estates.

Treatment of alimony income: For divorce and separation agreements executed after December 31, 2018, alimony income is no longer taxable and the alimony payments are not deductible. This applies to new alimony arrangements with the previous ones retaining the same income and deduction characteristics.

Alternative Minimum Tax: AMT is retained with a higher exemption amount. Due to the limitation on tax deductions, AMT will not impact as many taxpayers.

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

Health Insurance Mandate: For months beginning after December 31, 2018, the mandate for individual health insurance is eliminated.

Business Asset Expensing: Immediate expensing of business asset purchases and improvements is expanded.

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.

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