The Taxpayer's Quick Reference Guide TO THE New Tax Law

CHALLENGE: The new tax law changes are far-reaching, subject to interpretation and revisions, and will impact nearly every person, family, and business starting in 2018. That's a big deal. Figuring out your strategy is critical to getting the best results for your wallet.

Key #1

Tax deductions you counted on in the past may have been eliminated or changed. You'll need to understand the new rules.

Highlights:

- Nearly every bracket sees a 2% to 4% tax rate reduction, for an average estimated savings of $1,600.
- The standard deduction has nearly doubled to $12,000 for singles and $24,000 for married couples. Four out of five taxpayers are expected to benefit.
- Miscellaneous itemized deductions are no longer allowed.
- Everyone will gradually be pushed into higher brackets because of how the government now measures inflation (Chained-CPI), making tax credits and the standard deduction less valuable over time.
- "Bunching" deductions involves itemizing expenses one year and using the standard deduction the next to take advantage of all deductions.
- The limit for deducting out-of-pocket medical/dental expenses in 2018 drops to 7.5% of AGI.

Reminder: *Use the IRS Withholding Calculator at the IRS.gov website to check your new withholding amount.*

Key #2

Where you live makes a (big) difference in how you are affected by the new rules on deducting state and local taxes (SALT).

Highlights:

- New tax savings may disappear if you live in a high-tax state.
- Previously, taxpayers had the unlimited ability to deduct state, local, property, and sales taxes. Now that deduction has been reduced to $10,000.
- Reducing the SALT deductions will be felt most acutely in high-tax states including: CA, CT, IL, MD, MA, MN, NJ, and NY. Watch for state governments to respond.
- Interest deduction on new mortgages is now capped at $750,000, down from $1 million.
- Home equity loan interest is no longer deductible unless it is used in connection with home acquisition or improvement.

Status quo: *Dividends and capital gains tax rates remain the same under the new laws.*

Key #3

Family-related tax rule changes regarding children, education, high-earning couples, divorce, retirement, and estate planning may need your attention.

Highlights:

- You can now claim a $2,000 per child tax credit (up from $1,000), and $500 for non-child dependents, and the credit won't phase out until $200,000 (singles) and $400,000 (married couples). Up to $1,400 is refundable—you'll receive money back even if no taxes are owed.
- 529 plans can now pay up to $10,000 annually for K-12 education; previously the plans were restricted to secondary education.
- Starting in 2019, there are new divorce tax rules: Alimony is no longer deductible for the payer, nor is it considered income to the payee.
- Roth IRA conversions can no longer be reversed (recharacterized).
- The federal estate tax now applies to estates valued at $11.2 million for individuals and $22.4 million for couples. You still may owe state estate taxes.
- IMPORTANT: Review existing wills and trusts to check for language that could accidently disinherit certain heirs because of the increased estate tax exemption. Life insurance to pay estate taxes may no longer be needed.

Ouch! *The number of taxpayers expected to claim a charitable deduction will drop by 50%, according to the Tax Policy Center.*

Key #4

All businesses face new opportunities regarding how they pay taxes and what deductions and depreciation they can claim.

Highlights:

- The corporate tax rate is now 21% and the corporate AMT has been eliminated.
- Many self-employed business owners will be allowed to take a 20% deduction for qualified "pass-through" business income, which phases out starting at income over $157,500/$315,000 (single/married) and is eliminated at $207,500/$415,000 (single/married).
- Business owners may want to seek advice about reorganizing their firm for better tax treatment and to review new depreciation rules on the deductibility of capital equipment and other assets.

OPPORTUNITY: Most Americans will see more money in their pockets as a result of the new tax law, which means more money to spend, save, or invest. But none of this is simple. Careful planning is needed. So, get a professional to review your taxes, investments, and financial planning to understand how the new rules impact you, your family, and possibly even your business.