To My Clients and Friends:

The **Tax Cuts and Jobs Act** (**TCJA**) brought numerous changes that will continue to be hashed out over the coming years, bringing uncertainty as well as opportunity. Highlights include:

1. **Lower tax rates:** the new tax law may mean more cash in your pocket. **If you are an employee, you may have already seen a bump in your wages due to lower income tax withholding.** Although that might be nice**, it may mean that you will owe tax on April 15th, or get a smaller than expected refund.**
2. **The capital gains rates** didn't change -- those gains will still receive favorable treatment.
3. **New Standard Deduction amounts**: $24,000 for married, $12,000 for single, $18,000 for head of household filers. This means you may not have to keep those tax receipts going forward! **NOTE:** if you file a state tax return, keep those itemized receipts, as not all states have conformed to the new federal laws.
4. **No more personal exemptions**. In 2017 these were $4,050 for each person on the return. This lessens the benefit of the increased standard deduction.
5. **State/local/real estate/DMV taxes:** The sum of these is limited to a max deduction of $10,000.
6. **Misc Itemized deductions** have been eliminated. No employee home office deduction, no investment advisor fee deductions, no legal fee deductions, etc. (Again, state tax returns may still allow these deductions).
7. **Home mortgage changes:** Old law allowed mortgage interest deductions on homes with up to $1 million in acquisition debt. That has been reduced to $750,000 in acquisition debt for mortgages obtained after 12/31/17.
8. **Home equity lines of credit are no longer deductible,** unless specifically tied to acquisition or home improvement. This has NOT been grandfathered in. It applies to all home equity loans, no matter when acquired.
9. **The new Child Tax Credit is outstanding** for families with qualifying children under age 17. The credit is now $2,000 (doubled) and the income phase-out amounts have increased from $115,000 to $400,000 for married couples!
10. **New credit for non-qualifying dependents:** There is no age limit on a new $500 credit for dependents that are not qualifying children.
11. **Bunching charitable deductions:** If you are a "giver" but the increased standard deduction is eliminating your ability to itemize, you may want to consider storing away money for your gifts of charity, then doubling up two years' of donations into one year's tax return. This can be done via a donor advised fund. These funds allow you to set aside two or more years of planned giving into an account. When funded, the contribution, which is irrevocable, is deductible. The funds are held in the account until you want to donate to the 501c3 charity of your choice. If you'd like more info, give me a call.
12. **Qualified tuition plans now include elementary or secondary public, private or religious schools**, up to a $10,000 limit per tax year.

13. **Alimony will no longer be deductible to the payer or included in taxable income of the recipient.** If this impacts you, make sure your agreement reflects the financial impact of these changes.
14. **State tax returns.** If you file state tax returns, consider, for tax purposes, that no changes have been made and keep records accordingly.
15. **Alternative Minimum Tax** only went away for corporations. For individuals, it was eased but not eliminated.
16. **The Qualified Business Income Deduction** is a new deduction for "pass-through" income. It is available for qualified business income from sole proprietorships (including a farms), as well as from pass-through entities such as partnerships, LLCs, and S corporations. Under the TCJA, individuals may deduct up to 20% of their qualified business income; **however, the deduction is subject to quite a few rules and limitations. Some highlights:**
    - If you are single and have taxable income of $157,500 or less, you may be able to qualify for the full 20% deduction
    - If you are married & filing jointly and have taxable income of $315,000 or less, you may be able to qualify for the full 20% deduction
    - Once your taxable income exceeds those limits it gets complicated and we will need to do some planning/analysis
    - The deduction **applies to partners at the partner level**
    - **NO state has adopted** the new deduction (it won't apply to state income)

Even with uncertainty, there are things you can do to improve your situation. Please don't hesitate to contact me if you want more detail.

Best regards,

Elaine