BARRY & MOORE, CPAs

2018 Year-End Tax Planning For Individuals

2018 Year End Tax Planning For Individuals

The Tax Cuts and Jobs Act (TCJA) is the most significant tax legislation in over 30 years. Just about every taxpayer type is affected by the changes to the Internal Revenue Code, and action may have to be taken in 2018 to take advantage of lower rates, new tax benefits and new approaches to individual taxation. The TCJA also eliminated many long-standing tax benefits that taxpayers may have come to rely upon, so keeping abreast of what has changed and what to expect is also important.

Income Tax Rates - The most noticeable change coming from the TCJA was the reduction in tax rates. For 2018, the new rate structure on ordinary income includes seven brackets, as for tax years before 2018, but those effective rates have significantly dropped (See page 3 for 2018 Tax Brackets). With the prospect of tax reform, taxpayers may have deferred income at the end of 2017 with the hope of taking advantage of these lower rates in 2018. Also, with a new political landscape in 2019 and beyond, 2018 may be the year to take advantage of lower income tax rates.

Capital Gain Tax Rates - While the determination of applicable capital gains rates is different under the TCJA, with the structure tied to taxable income "breakpoints" instead of tax brackets, there is actually no difference in the effect of those changes. Long-term capital gains that were taxed at zero, 15, or 20 percent in 2017 based on taxable income will be taxed at the same rates in 2018.

Divorce - Nearly all of the changes to the Internal Revenue Code coming out of the TCJA took effect January 1, 2018. However, one very significant change that comes into effect January 1, 2019 is the treatment of alimony. Beginning with agreements entered into after December 31, 2018, alimony or separate maintenance payments are no longer deductible by the payor, nor includible in the income of the payee. Taxpayers who are in the final stages of negotiating an agreement should take this into consideration when determining whether to quickly finalize negotiations before January 1, 2019.

This change does not affect divorce or separation agreements entered into before 2019 nor those altered after 2018 where the changed method of taxation is not expressly stated to apply. If both spouses are agreeable to a renegotiation of an existing separation agreement, the new rules can be applied to these existing agreements, therefore eliminating the income and deductions related to alimony payments in 2018 and beyond.

Medical Expenses - The TCJA lowered the floor for claiming deductions for medical expenses to 7.5 percent of AGI for **all** taxpayers, not just those aged 65 or higher, applicable to 2017 and 2018 only. Individuals who have the ability to accelerate medical and dental procedures from 2019 to 2018 should consider doing so. In 2019, the floor returns to 10 percent, making the deduction more difficult to claim.

Increased Standard Deduction - One of the most broadly impactful provisions of the TCJA was the near doubling of the standard deduction for all taxpayers. For 2018, the standard deduction amounts are $24,000 for joint filers, $18,000 for heads of households, and $12,000 for all other individual filers. This increased amount makes it less likely that it is more advantageous for individuals to itemize deductions. This could result in individuals making fewer charitable contributions, since the deduction is less likely to be claimed.

One possible way of working around this is to stagger charitable contributions to every other year. Individuals should consider letting their regular charitable contribution budget accumulate for a year, then effectively make a double charitable contribution in the following year. Additionally, the limitation for charitable contributions was increased to 60% of AGI, making it more likely that taxpayers would not be limited on schedule A for their increased charitable contributions.

2018 Year End Tax Planning For Individuals *(Continued)*

Mortgage Interest - The TCJA modified existing rules related to the Mortgage Interest Deduction. For 2018, taxpayers are allowed to deduct interest on up to $750,000 of qualifying indebtedness on homes purchased after December 15, 2017. Existing loans over this amount will continue to be subject to the prior $1,000,000 limit. Refinancing of existing loans will also be grandfathered in, as long as the new loan amount does not exceed the amount of the mortgage being refinanced.

Additionally, the law essentially eliminates the deductibility of mortgage interest on Home Equity Loans (HEL). The IRS issued a ruling discussing the change in this law and has agreed that if the HEL is used to substantially improve the taxpayers home (remodel, new pool, etc.) then the interest will be deductible as so long as the combined loans are under the $750,000 limit. The IRS has indicated that it doesn't matter what the loan is called by the institution issuing the loan; what matters for deductibility will be how the loan proceeds were used. Lastly, there is no grandfather clause for existing HELs; interest deductibility will need to be determined on every existing and new HEL starting with the 2018 tax year.

Schedule A Taxes Limitation - The TCJA sets the maximum threshold for deducting taxes on schedule A at $10,000 for 2018 and forward. The effect of this limitation is that any combined amounts paid for property taxes, state income taxes, personal property taxes (vehicle license taxes) or any other taxes that are normally deducted on schedule A will be capped at $10,000.

If you are a taxpayer who is under the threshold each year and also very close to going over the new higher standard deduction amount, it may be beneficial to stagger your property tax payments to every other year, to take advantage of potentially itemizing deductions every other year. This would, of course, be subject to the $10,000 limit and would need to be planned carefully to ensure that the most possible benefit is received each year.

Arizona Tax Credits/Charitable Contribution Deductions - With the changes implemented by the TCJA related to the $10,000 taxes limitation, the IRS also issued a ruling indicating that taxpayers will no longer be allowed to take a charitable contribution deduction for an amount that they are also receiving a state tax credit for (this applies to contributions made after August 27th, 2018). This is in response to certain higher tax states passing legislation to allow tax payments to be considered credits for state taxes if they were paid to certain state charitable organizations.

While there is a lawsuit pending related to this ruling that may change how we account for these payments in the future, for 2018 contributions made after August 27th, any benefit received will be accounted for as either a charitable contribution deduction or an Arizona Tax Credit, **but not both**.

We still recommend making charitable contributions deduction payments to the Arizona Tax Credit Organizations as taxpayers have done in the past; while taxpayers won't be receiving a charitable contribution deduction, they will still be able to determine where a portion of their tax dollars go and can potentially provide benefit to an organization or charitable cause that is important to them. Details related to the Qualifying Charitable Organizations, contribution limits and contribution timing is detailed at the Arizona Department of Revenue website, (see link below). Contribution limits by organization type are also included on page 3.

https://azdor.gov/tax-credits

2018 Year End
Tax Planning
For Individuals *(Continued)*

2018 Tax Brackets

Rate	Single/MFS	Married Filing Jointly	Head of Household
10%	Up to $9,525	Up to $19,050	Up to $13,600
12%	Over $9,525 but not over $38,700	Over $19,050 but not over $77,400	Over $13,600 but not over $51,800
22%	Over $38,700 but not over $82,500	Over $77,400 but not over $165,000	Over $51,800 but not over $82,500
24%	Over $82,500 but not over $157,500	Over $165,000 but not over $315,000	Over $82,500 but not over $157,500
32%	Over $157,500 but not over $200,000	Over $315,000 but not over $400,000	Over $157,500 but not over $200,000
35%	Over $200,000 but not over $500,000	Over $400,000 but not over $600,000	Over $200,000 but not over $500,000
37%	Over $500,000	Over $600,000	Over $500,000

*2018 Standard Deduction**

Single/MFS	Married Filing Jointly	Head of Household
$12,000	24,000	$18,000

Under current law, there is no deduction allowed for Personal Exemptions from 2018 through 2023.

2018 Child Tax Credits

Credit	Married Filing Jointly	All Other Taxpayers
$2,000 for each qualifying child under the age of 17 that is claimed as a dependent	Phaseout begins at AGI of more than $400,000, credit is fully phased out at $440,000	Phaseout begins at AGI of more than $200,000, credit is fully phased out at $240,000

2018 AZ Tax Credit Limitations

Organization Type	Single/Other Filers	Married Filing Jointly
Public School Tax Credit	$200	$400
Qualifying Charitable Organization	$400	$800
Qualifying Foster Care Organization	$500	$1,000
Private School Tuition Tax Credit	$555	$1,110
Private School Tuition - Plus Tax Credit	$552	$1,103
Military Family Relief Fund[1]	$200	$400
Maximum Potential AZ Tax Credits	$2,407	$4,813

1. Arizona allows only $1,000,000 in contributions each year to qualify for this credit. If the $1,000,000 limit has been reached, your contribution for the tax credit will be returned.

BARRY & MOORE, CPAs

www.barryandmoore.com

602.277.5463