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The tax laws continue to provide opportunities for the wise and traps for the unwary. Often, tax savings can be achieved by taking action before the year-end. The information and strategies discussed herein may or may not be appropriate for your situation. Remember to consult with your tax professional before implementing them.

New Tax Laws

On December 22, President Trump signed into law the "Tax Cuts and Jobs Act" (TCJA) (P.L. 115-97). Below are some of the individual changes under the new law. Keep in mind that some of the tax provisions of this new law are permanent, however, most of the tax provisions only apply to for tax years 2018 - 2025.

Standard Deduction Increased. For tax years beginning after December 31, 2017 and before January 1, 2026, the standard deduction is increased to $24,000 for married individuals filing a joint return, $18,000 for head-of-household filers, and $12,000 for all other taxpayers, adjusted for inflation in tax years beginning after 2018.

Note: Even if you think you will not itemize your deductions for federal tax purposes, please bring in your receipts to you tax appointment because some information may be useful for state tax purposes.

Personal Exemptions Suspended. For tax years beginning after December 31, 2017 and before January 1, 2026, the deduction for personal exemptions is effectively suspended by reducing the exemption amount to zero.

Child Tax Credit Increased. In an effort to make up for the loss of the personal exemptions, the new law allows for an increased child tax credit. For tax years beginning after December 31, 2017 and before January 1, 2026, the child tax credit is increased to $2,000, and other changes are made to phase-outs and refundability during this same period.

Phase-out. The income levels at which the credit phases out are increased to $400,000 for married taxpayers filing jointly ($200,000 for all other taxpayers) (not indexed for inflation).

Non-child dependents. In addition, a $500 nonrefundable credit is provided for certain non-child dependents.

Refundability. The amount of the credit that is refundable has also been increased to $1,400 per qualifying child, and this amount is indexed for inflation, up to the base $2,000 base credit amount. The earned income threshold for the refundable portion of the credit is decreased from $3,000 to $2,500.

Repeal of Obamacare Individual Mandate. Under pre-Act law, the Affordable Care Act (also called Obamacare) required that individuals who were not covered by a health plan that provided at least minimum essential coverage were required to pay a "shared responsibility payment" (also referred to as a penalty) with their federal tax return. Unless an exception applied, the tax was imposed for any month that an individual did not have minimum essential coverage.

New Law: For months beginning after December 31, 2018, the amount of the individual shared responsibility payment is reduced to zero. In other words, taxpayers still need to have health insurance coverage (or show an exemption) for 2018.

Deduction for Personal Casualty & Theft Losses Suspended. For tax years beginning after December 31, 2017 and before January 1, 2026, the personal casualty and theft loss deduction is suspended, except for personal casualty losses incurred in a Federally-declared disaster.

Expanded Use of 529 Account Funds. For distributions after December 31, 2017, "qualified higher education expenses" include tuition at an elementary or secondary public, private, or religious school, up to a $10,000 limit per tax year.

Moving Expenses Deduction Suspended. For tax years beginning after December 31, 2017 and before January 1, 2026, the deduction for moving expenses is suspended, except for members of the Armed Forces on active duty who move pursuant to a military order and incident to a permanent change of station.

State and Local Tax Deduction Limited. For tax years beginning after December 31, 2017 and before January 1, 2026, a taxpayer may claim an itemized deduction of up to $10,000 ($5,000 for a married taxpayer filing a separate return) for the aggregate of State and local property taxes, and State and local income, (or sales taxes in lieu of income, etc. taxes) paid or accrued in the tax year. Foreign real property taxes may not be deducted.

Home Equity Indebtedness Interest Deduction. For tax years beginning after December 31, 2017 and before January 1, 2026, the deduction for interest on home equity indebtedness is suspended.

Mortgage Interest Deduction. For tax years beginning after December 31, 2017 and before January 1, 2026, the deduction for mortgage interest is limited to underlying indebtedness of up to $750,000 ($375,000 for married taxpayers filing separately). For tax years after December 31, 2025, the prior $1 million ($500,000 for MFS) limitations are restored, and a taxpayer may treat up to these amounts as acquisition indebtedness regardless of when the indebtedness was incurred. The suspension for home equity indebtedness also ends for tax years beginning after December 31, 2025. The following exceptions would allow a taxpayer to exceed the new limits:

1. **Debt on or before December 15, 2017**.
   The new lower limit doesn't apply to any acquisition indebtedness incurred before December 15, 2017.

2. **"Binding contract" exception.**
   A taxpayer who has entered into a binding written contract before December 15, 2017 to close on the purchase of a principal residence before January 1, 2018, and who purchases such residence before April 1, 2018, shall be considered to incur acquisition indebtedness prior to December 15, 2017.

3. **Refinancing.**
   The $1 million/$500,000 limitations continue to apply to taxpayers who refinance existing qualified residence indebtedness that was incurred before December 15, 2017, so long as the indebtedness resulting from the refinancing doesn't exceed the amount of the refinanced indebtedness.

Medical Expense Deduction. For tax years beginning after December 31, 2016 and ending before January 1, 2019, the threshold on medical expense deductions is reduced to 7.5% for all taxpayers. In addition, the 7.5% (rather than 10%) threshold applies for AMT (as well as regular tax) purposes for 2017 - 2018.

Miscellaneous Itemized Deductions Suspended. For tax years beginning after December 31, 2017 and before January 1, 2026, the deduction for miscellaneous itemized deductions that are subject to the 2% floor is suspended.

Gambling Loss Limitation Modified. For tax years beginning after December 31, 2017 and before January 1, 2026, the limitation on wagering losses under Code Sec. 165(d) is modified to provide that all deductions for expenses incurred in carrying out wagering transactions, and not just gambling losses, are limited to the extent of gambling winnings.

Kiddie Tax Modified. For tax years beginning after December 31, 2017, the 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. This rule applies to the child's ordinary income and his or her income taxed at preferential rates.

Alimony. For any divorce or separation agreement executed after December 31, 2018, or executed before that date but modified after it (if the modification expressly provides that the new amendments apply), alimony and separate maintenance payments are not deductible by the payor spouse and are not included in the income of the payee spouse. Rather, income used for alimony is taxed at the rates applicable to the payor spouse.

For those taxpayers who were divorced before January 1, 2019 (and do not modify the divorce or separation agreement), the old rules will still apply.

Additional Information

Standard Mileage Rate. Taxpayers can use the standard mileage rate (in lieu of actual expenses) in computing the deductible costs of operating automobiles owned or leased by them (including vans, pickups or panel trucks) for business purposes. This rate is also used as a benchmark by the federal government and many businesses to reimburse their employees for business travel. The following rates are applicable for the 2018 tax year:

Business	$.545
Medical	.18
Moving	.18
Charitable	.14

Note: The TCJA suspended the deduction for unreimbursed employee business expenses for tax years 2018 - 2025.

Deduction for Pass-through Income. Generally, for tax years beginning after December 31, 2017 and before January 1, 2026, the TCJA added a new section, Code Sec. 199A, "Qualified Business Income," under which a non-corporate taxpayer, including a trust or estate, who has qualified business income (QBI) from a partnership, S corporation, or sole proprietorship may be entitled to a deduction of up to 20% of their QBI.

For 2018, if taxable income exceeds $315,000 for a married couple filing jointly, or $157,500 for all other taxpayers, the deduction may be limited based on whether the taxpayer is engaged in a service-type trade or business (such as law, accounting, health, or consulting), the amount of W-2 wages paid by the trade or business, and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the trade or business.

The limitations are phased in for joint filers with taxable income between $315,000 and $415,000 and for all other taxpayers with taxable income between $157,500 and $207,500.

In addition, a whole other category of income qualifies for the 20% deduction, even if you don't have any "business income." The aggregate amount of your qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income for the tax year, also qualifies for the Code Sec. 199A deduction.

Social Security Wage Base for 2019. The Social Security Administration (SSA) recently announced that the maximum earnings subject to the Social Security component of the FICA tax will increase from $128,400 to $132,900 for 2019.

This means that for 2019, the maximum Social Security tax that employers and employees will each pay is $8,239.80 ($132,900 x 6.2%). A selfemployed person with at least $132,900 in net self-employment earnings will pay $16,479.60 ($132,900 x 12.40%) for the Social Security part of the self-employment tax. The Medicare component remains 1.45% of all earnings, and individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly) will pay an additional 0.9% in Medicare taxes.

Year-End Planning

Year-end planning is always complicated by the uncertainty of what the following year may bring, but this year presents an even bigger challenge. Serious questions persist over whether tax legislation will pass this year and, if so, whether it will involve sweeping tax reform, simple rate cuts, or something in between. With that in mind, here are a few steps that you might consider saving you tax dollars if you act before the end of the year. Please note that all actions may not apply in your situation.

- If you become eligible in December 2018 to make health savings account (HSA) contributions, you can make a full year's worth of deductible HSA contributions for 2018. ($3,450 for self-only coverage and $6,900 for family coverage in 2018).

- Individuals at least 70½ years of age, have the ability to make a direct transfer from an IRA to a charitable organization and exclude from gross income (up to $100,000 per year) the qualified charitable distribution.

  Using your IRA distributions for charitable giving could save you more than taking a charitable deduction on a normal gift. That's because these IRA distributions for charitable giving won't be included in income at all, lowering your AGI. You'll see the difference in many AGI-based computations. Even better, the distribution to charity will still count toward the satisfaction of your minimum required distribution for the year.

- Postpone income until 2019 and accelerate deductions into 2018 to lower your 2018 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2018 that are phased-out over varying levels of AGI.

- Realize losses on stock while substantially preserving your investment position. For example, you can sell the original securities and then buy back the same securities at least 31 days later.

- You can give up to $15,000 to as many people as you wish in 2018 (same for 2019), free of gift or estate tax. You get a new annual gift tax exclusion every year, so don't let it go to waste. If you are married, you and your spouse can elect to "gift split" and use your exemptions together to give up to $30,000 (for 2018) per beneficiary.
