

Memo

To: All Clients - Merry Christmas and Happy New Year!
From: Gregory Barford
Date: 12/3/18
Subject: *Individual* Income Tax Planning for 2018

There are major changes to personal income taxes for 2018. More people will benefit from taking the standard deduction in lieu of itemizing deductions. The personal exemption is gone for 2018; however, this is offset by taxpayers that have children under the age of 17 will now get a \$2,000 child tax credit; see the table below for income limitations. Tax rates are lower in 2018 compared to 2017. Moreover, certain itemized deductions are eliminated and limited. Most taxpayers will pay lower income taxes; some may pay more income taxes. **Each taxpayer has unique circumstances that determine whether they will pay more or less income taxes.**

Major Changes for 2018 compared to 2017 follow:

	2018	2017
Standard deduction-family	\$24,000	\$12,700
Standard deduction-single	12,000	6,350
Personal exemption	-0-	4,050
Child tax credit income phase out-married	400,000	110,000
Child tax credit income phase out-single	200,000	75,000
Itemized deductions:		
Medical expenses-still deductible	Excess of 7.5% of AGI	Excess of 10% of AGI
State and local taxes-limited	Maximum of 10,000	Not limited
Mortgage interest-still deductible	Limited to \$750,000 mortgage	Limited to \$1,000,000 mortgage
Mortgage interest-home equity	Gone	Deductible
Charity-still deductible	Maximum of 60% of AGI	Maximum of 50% of AGI
Miscellaneous deductions	Gone	Deductible above 2.5% of AGI
Phaseout of itemized deductions	Gone	In place
Long term capital gains rate-in place	0%,15% and 20%	0%,15% and 20%

Alimony will still be deductible for the payor and income for the recipient for pre-2019 divorce agreements. For divorce agreements executed in 2019, there will be no income for the recipient and no deduction for the payor.

The AMT (alternative minimum tax) is still around; however, the exemption has been increased in 2018 to \$109,400 from \$78,750 for married taxpayers; and increased in 2018 to \$70,300 from \$50,600 for single taxpayers. Since there is no personal exemption deduction for the AMT and personal exemptions are gone, itemized deduction for state and local taxes is limited to \$10,000. Accordingly, fewer taxpayers will be subject to the AMT for 2018.

State and local taxes will still be deductible for rental properties and businesses.

Con't from page 1 - Major Changes for 2018 Compared to 2017

Retirement Plans

Consider maximizing your retirement contributions. You have until the last payroll of 2018 to maximize your employer-sponsored retirement plan as follows:

Employer Plan Type	Under Age 50	Age 50 and Over
Simple IRA	\$12,500	\$15,500
401K and 403B	\$18,500	\$24,500

For IRAs that are *not* employee sponsored, you have until April 15, 2019 to maximize your contributions for 2018. The maximum contribution is \$5,500 for those under age 50 and \$6,500 for those over age 50.

Deferring Income and Deferring Expense Deductions

Everyone has unique circumstances that determine whether it makes sense to defer or accelerate income or deductions for 2018. Since itemized deductions for state and local taxes are limited to \$10,000 it probably does not make sense to prepay estimated state tax payments in 2018 for payments that are due on 1/15/19. Contact me for further guidance.

Capital Gains

Before 12/31/18 consider selling investments that have permanent losses that are not going to rebound. This will help offset capital gains and will create capital losses that may be deducted. Any losses may be used to offset capital gains dollar for dollar; the maximum capital loss deduction is \$3,000 with any excess amount carried over to future years.

HSA Contributions

If you have a high-deductible health plan, consider a health savings account. The table below shows the maximum allowable amounts for 2018:

Plan Type	Under Age 55	Age 55 and Over
Single Plan	\$3,450	\$4,450
Family Plan	\$6,900	\$7,900

Flexible Spending Account (FSA) Contributions

An FSA allows you to set aside pretax dollars to cover unreimbursed medical expenses. For 2018, you can contribute up to \$2,650 to an employer-sponsored FSA and carry over as much as \$500 from one year to the next.

Contact our office for further details: 301-865-4648 or gab@gabcpa.com