“Overview of the Tax Cuts and Jobs Act”

Changes to the tax laws affecting individuals for this filing season.
Basics for Individuals and Families

As part of our client and community outreach we have prepared this very limited knowledge base for your review. As you can imagine this summation is very limited in scope. Please talk to your tax and investment advisors for specific application of the changes affecting your returns.

Major tax reform that affects both individuals and businesses was enacted in December 2017. It’s commonly referred to as the Tax Cuts and Jobs Act, TCJA or tax reform.
The IRS estimates that there will be a need to create or revise more than 400 taxpayer forms, instructions and publications for the filing season starting in 2019. It’s more than double the number of forms that would be normally created or revised in a typical year.

1. **For 2018, most tax rates have been reduced. This means most people will pay less tax starting this year. The 2018 tax rates are 10%, 12%, 22%, 24%, 32%, 35%, and 37%.**

In addition, for 2018, the tax rates and brackets for the unearned income of a child have changed and are no longer affected by the tax situation of the child’s parents. The new tax rates applicable to a child’s unearned income of more than $2,550 are 24%, 35%, and 37%.
In addition to lowering the tax rates, some of the changes in the law that affect you and your family include increasing the standard deduction, suspending personal exemptions, increasing the child tax credit, and limiting or discontinuing certain deductions.
Most of the changes in this legislation take effect in 2018 for federal tax returns filed in 2019. It is important that individual taxpayers consider what the TCJA means and make adjustments in 2018 and 2019.

2. **Federal income tax withholding may need adjustment**

The Tax Cuts and Jobs Act changed the way taxable income is calculated and reduced the tax rates on that income.
The IRS had to address and make changes to income tax withholding in response to the new law as soon as possible after it passed. This issue affects every taxpayer who receives a paycheck.
The U.S. tax system operates on a pay-as-you-go basis. Taxpayers must generally pay at least 90 percent of their taxes throughout the year through withholding, estimated or additional tax payments or a combination of the two.
THIS MEANS THAT...you need to pay most of your tax during the year, as the income is earned or received. If you don’t, you may owe an estimated tax penalty when you file.

a. Everyone should do an annual check of their withholding but this year is even more important, especially for taxpayers who:
b. Belong to a two-income family.
c. Work two or more jobs or only work for part of the year.
d. Have children and claim credits such as the Child Tax Credit.
e. Have older dependents, including children age 17 or older.
f. Itemized deductions on their prior year’s tax returns.
g. Earn high incomes and have more complex tax returns.

h. Received large tax refunds or had large tax bills for the prior year.

3. Making Estimated or Additional Tax Payments

Certain taxpayers - including those who don't have enough income tax withheld by their employer - may have to pay estimated taxes.

If the amount of income tax withheld from your salary or pension is not enough, or if you receive income such as interest, dividends, alimony, self-employment income, capital gains, prizes and awards, you may have to make estimated or additional tax payments.

4. The standard deduction is a dollar amount that reduces the amount of income on which you are taxed and varies according to your filing status.

The standard deduction reduces the income subject to tax. The Tax Cuts and Jobs Act nearly doubled standard deductions. When you take the standard deduction, you can't itemize deductions for mortgage interest, state taxes and charitable deductions on Schedule A, Itemized Deductions.

Starting in 2018, the standard deduction for each filing status is:

Single...$12,000 ....(up from $6,350 in 2017) Married filing jointly. Qualifying widow(er) ....$24,000 ....(up from $12,700 in 2017) Married filing separately......................................$12,000 ....(up from $6,350 in 2017) Head of household...$18,000 ....(up from $9,350 in 2017) The amounts are higher if you or your spouse are blind or over age 65.

Most taxpayers have the choice of either taking a standard deduction or itemizing. If you qualify for the standard deduction and your standard deduction is more than your total itemized deductions, you should claim the standard deduction in most cases and don't need to file a Schedule A, Itemized Deductions, with your tax return.

5. Changes to Itemized Deductions

In addition to nearly doubling standard deductions, the Tax Cuts and Jobs Act changed several itemized deductions that can be claimed on Schedule A, Itemized Deductions.

THIS MEANS THAT...Many individuals who formerly itemized may now find it more beneficial to take the standard deduction. Check your 2017 itemized deductions to make sure you understand what these changes mean to your tax situation for 2018.

Almost everyone who previously itemized before is affected by changes from the Tax Cuts and Jobs Act. The changes to both the standard deduction and itemized deductions could affect how much you need to have your employer withhold from your pay. Even if you continue to itemize deductions, you should check your withholding.

You may not take the standard deduction if you claim itemized deductions. Alternatively, if you take the standard deduction, you may not claim itemized deductions. For married filing separate taxpayers, if one spouse elects to itemize, the other spouse is also required to itemize. That's why it is important that you consider what these changes mean for you and your family.

For 2018, the following changes have been made to itemized deductions that can be claimed on Schedule A, including:

A. Limit on overall itemized deductions suspended.

You may be able to deduct more of your total itemized deductions if your itemized deductions were limited in the past due to the amount of your adjusted gross income. The old rule that limited the total itemized deductions for certain higher-income individuals has been suspended.

B. Deduction for medical and dental expenses modified.
You can deduct certain unreimbursed medical expenses that exceed 7.5% of your 2018 adjusted gross income. Before this law change, unreimbursed medical expenses had to exceed 10% of adjusted gross income for most taxpayers in order to be deductible.

C. Deduction for state and local income, sales and property taxes modified .
Your total deduction for state and local income, sales and property taxes is limited to a combined, total deduction of $10,000 ($5,000 if Married Filing Separate). Any state and local taxes you paid above this amount cannot be deducted. No deduction is allowed for foreign real property taxes. Property taxes associated with carrying on a trade or business are fully deductible.

D. Deduction for home mortgage and home equity interest modified.
Your deduction for mortgage interest is limited to interest you paid on a loan secured by your main home or second home that you used to buy, build, or substantially improve your main home or second home.

E. New dollar limit on total qualified residence loan balance.
The date you took out your mortgage or home equity loan may also impact the amount of interest you can deduct. If your loan was originated or treated as originating on or before Dec. 15, 2017, you may deduct interest on up to $1,000,000 ($500,000 if you are married filing separately) in qualifying debt. If your loan originated
after that date, you may only deduct interest on up to $750,000 ($375,000 if you are married filing separately) in qualifying debt. The limits apply to the combined amount of loans used to buy, build or substantially improve the taxpayer's main home and second home.

F. Limit for charitable contributions modified.
The limit on charitable contributions of cash has increased from 50 percent to 60 percent of your adjusted gross income

G. Deduction for casualty and theft losses modified.
Net personal casualty and theft losses are deductible only to the extent they're attributable to a federally declared disaster. Claims must include the FEMA code assigned to the disaster. See the 2018 Instructions for Form 4684, Casualty and Theft Losses, for more information about 2018 disasters.
The loss must still exceed $100 per casualty and the net total loss must exceed 10 percent of your AGI. In addition, you can still elect to deduct the casualty loss in the tax year immediately preceding the tax year in which you incurred the disaster loss.

H. Miscellaneous itemized deductions suspended.
The previous deduction for job-related expenses or other miscellaneous itemized deductions that exceeded 2 percent of your adjusted gross income is suspended. This includes unreimbursed employee expenses such as uniforms, union dues and the deduction for business-related meals, entertainment and travel, as well as any deductions you may

have previously been able to claim for tax preparation fees and investment expenses, including investment management fees, safe deposit box fees and investment expenses from pass-through entities. The business standard mileage rate listed in Notice 2018-03 cannot be used to claim an itemized deduction for unreimbursed employee travel expenses during the suspension.

I. Deduction and Exclusion for moving expenses suspended

The deduction for moving expenses is suspended. During the suspension, no deduction is allowed for use of an automobile as part of a move. This suspension does not apply to members of the U.S. Armed Forces on active duty who move pursuant to a military order related to a permanent change of station.

Also, employers will include moving expense reimbursements as taxable income in the employees' wages because the new law suspends the former exclusion from income for qualified moving expense reimbursements from an employer. This suspension does not apply to members of the U.S. Armed Forces on active duty who move pursuant to a military order related to a permanent change of station as long as the expenses would qualify as a deduction if the government didn't reimburse the expense.

J. Deduction for personal exemptions suspended

For 2018, you can't claim a personal exemption deduction for yourself, your spouse, or your dependents.

K. Child tax credit and additional child tax credit

For 2018, the maximum credit increased to $2,000 per qualifying child. Up to $1,400 of the credit can be refundable for each qualifying child as the additional child tax credit. In addition, the income threshold at which the child tax credit begins to phase out is increased to $200,000, or $400,000 if married filing jointly.

L. Credit for other dependents

A new credit of up to $500 is available for each of your qualifying dependents other than children who can be claimed for the child tax credit. The qualifying dependent must be a U.S. citizen, U.S. national, or U.S. resident alien. The credit is calculated with the child tax credit in the form instructions. The total of both credits is subject to a single phase out when adjusted gross income exceeds $200,000, or $400,000 if married filing jointly.

M. Social security number required for child tax credit

Beginning with Tax Year 2018, your child must have a Social Security Number issued by the Social Security Administration before the due date of your tax return (including extensions) to be claimed as a qualifying child for the Child Tax Credit or Additional Child Tax Credit. Children with an ITIN can't be claimed for either credit.

If your child's immigration status has changed so that your child is now a U.S. citizen or permanent resident but the child's social security card still has the words "Not valid for employment" on it, ask the SSA for a new social security card without those words.

If your child doesn't have a valid SSN, your child may still qualify you for the Credit for Other Dependents. This is a non-refundable credit of up to $500 per qualifying person. If your dependent child lived with you in the United States and has an ITIN, but not an SSN, issued by the due date of your 2018 return (including extensions), you may be able to claim the new Credit for Other Dependents for that child.

Spouses and dependents residing outside the United States who use Individual Taxpayer Identification Numbers - a tax processing number issued by the IRS – should review the information on IRS.gov/ITIN to determine whether they need to renew an ITIN before filing a tax return next year. They do not need to renew their ITINs if they would have been claimed as dependents qualifying for this personal exemption benefit and not for any other benefit.

N. Alternative minimum tax (AMT) exemption amount increased
The AMT exemption amount is increased to $70,300 ($109,400 if married filing jointly or qualifying widow(er); $54,700 if married filing separately). The income level at which the AMT exemption begins to phase out has increased to $500,000 or $1,000,000 if married filing jointly.

O. Alimony and separate maintenance payments are no longer deductible for any divorce or separation agreement executed after December 31, 2018, or for any divorce or separation agreement executed on or before December 31, 2018, and modified after that date.
Further, alimony and separate maintenance payments are no longer included in income based on these dates, so you won't need to report these payments on your tax return if the payments are based on a divorce or separation agreement executed or modified after December 31, 2018.

WHAT'S NEXT FOR TAX YEAR 2019? ... divorce or separation agreements executed or modified after Dec 31, 2018 providing alimony will have different tax consequences. The alimony payments will not be deductible for the spouse who makes alimony payments and they will not be included in the income of the receiving spouse.

P. Treatment of student loans discharged on account of death or disability modified
TCJA modifies the exclusion of student loan discharges from gross income, by including within the exclusion certain discharges on account of death or disability. It applies to discharges of indebtedness after December 31, 2017, and before January 1, 2026.
THIS MEANS THAT...student loans discharged due to death or disability are not included in income.

Q. Reporting Health Care Coverage
Under the Tax Cuts and Jobs Act, you must continue to report coverage, qualify for an exemption, or report an individual shared responsibility payment for tax year 2018.
If you need health coverage, visit HealthCare.gov to learn about health insurance options that are available for you and your family, how to purchase health insurance, and how you might qualify to get financial assistance with the cost of insurance.
Most taxpayers have qualifying health coverage or a coverage exemption for all 12 months in the year, and will check the box on the front of their tax return.
THIS MEANS THAT... For tax year 2018, the IRS will not consider a return complete and accurate if you do not report full-year coverage, claim a coverage exemption, or report a shared responsibility payment on the tax return. You remain obligated to follow the law and pay what you may owe at the point of filing.

WHAT’S NEXT FOR TAX YEAR 2019? The shared responsibility payment is reduced to zero under TCJA for tax year 2019 and all subsequent years. See IRS .gov/aca for more information.

R. Retirement Plans

Re-characterization of a Roth Conversion

You can no longer re-characterize a conversion from a traditional IRA, SEP or SIMPLE to a Roth IRA. The new law also prohibits re-characterizing amounts rolled over to a Roth IRA from other retirement plans, such as 401(k) or 403(b) plans. You can still treat a regular contribution made to a Roth IRA or to a traditional IRA as having been made to the other type of IRA.

S. Disaster Relief – Retirement Plans

Laws enacted in 2017 and 2018 make it easier for retirement plan participants to access their retirement plan funds to recover from disaster losses incurred in federally declared disaster areas in 2016, 2017 and 2018. This disaster relief may allow affected taxpayers to: waive the 10% additional tax on early distributions and include a qualified hurricane distribution in income over a 3-year period ▯ repay their distributions to the plan have expanded loan availability extend the loan repayment period.

T. ABLE Accounts – Rollovers from a 529 Plan

You can contribute more to your Achieving a Better Life Experience (ABLE) account. You may also rollover limited amounts from a 529 qualified tuition program account of the designated beneficiary to the ABLE account of the designated beneficiary to their family member.