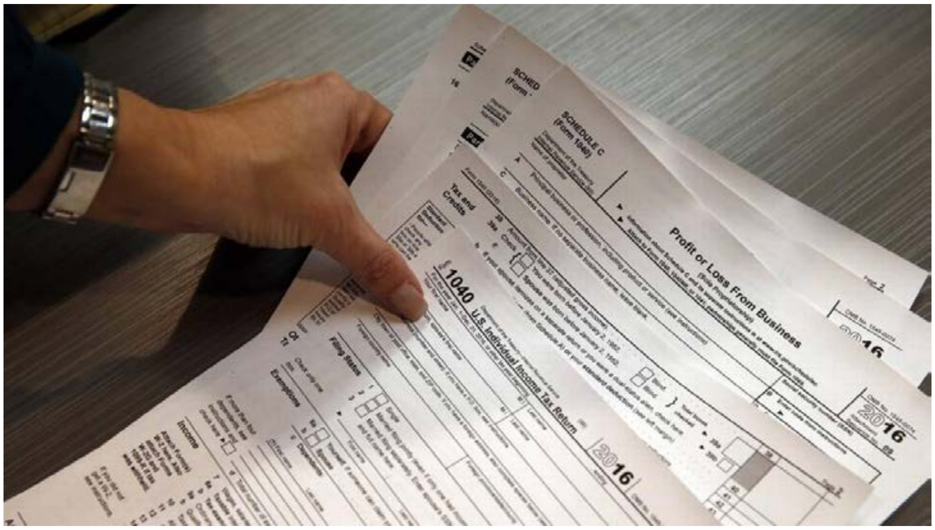

How will the new tax law affect you?

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Special to The Star

January 16, 2018 09:25 PM

Grab your 2016 tax return and let's walk through how things might look for 2018, if we assume your figures don't change that much year to year. Look at your Form 1040.

Form 1040

Your tax rate is likely going down – both the marginal and the average. On the other hand, you'll lose the deduction for personal exemptions which you see on page 1 of your Form 1040.

For example, let's say you're married filing joint and your income was $100,000. That's between $75,900 and $153,100 and under the old law, you'd pay at a 25 percent marginal (top) tax rate. Under the new bill, you're paying a top 22 percent, since you're between $77,400 and $165,000.

Or, let's say your income was $250,000. Under the old law you paid a top 33 percent. Under the new bill you pay a top 24 percent. In both examples you lose the $8,100 personal exemptions under the new bill. If you'd like to calculate the change for you, check out *https://taxfoundation.org/final-tax-cuts-and-jobs-act-details-analysis.*

Toward the top of page 2 of your Form 1040, you'll see total itemized/standard deductions. Most clients at my firm itemize deductions, so the amount shown is over the $12,700 standard deduction. Check what your figure is. Under the new bill, you can use the new $24,000 standard deduction, or itemize if that's greater.

Schedule A

You'll want to know now whether you'll be itemizing or not in 2018, so review your most recent Schedule A.

Let's start at the top section. "Medical and Dental Expenses" that exceed 7.5 percent of your AGI (adjusted gross income) are deductible. That deduction is uncommon but you can do the math to see if you'll have something to deduct.

The "Taxes You Paid" section on Schedule A covers deductions for state and local taxes from income tax, real estate tax and personal property tax. If your Schedule A shows $8,000 in these taxes, count that. If it shows $12,000 in these taxes, you can only use $10,000.

"Interest You Paid" still gives you a deduction, but you cannot increase that over $750,000 in mortgage balances. Nor can you deduct interest on home equity loans anymore.

The next section on Schedule A handles "Gifts to Charity." Those remain deductible. (The maximum cap increases from 50 to 60percent but that impacts few people.)

"Casualty and Theft Losses" are next, affect few people, and have been restricted to federally declared disasters.

The entire section for miscellaneous deductions (labeled "Job Expenses and Certain Miscellaneous Deductions", and "Other...") is gone, so you cannot deduct costs for job hunting/education, tax preparation/adviser fees or unreimbursed employee expenses.

Most people can add the "taxes you paid," the "interest you paid," and the "gifts to charity" to get potential deductions for 2018. If that exceeds $24,000 for joint filers or $12,000 for single filers, you can probably still itemize in 2018.

If you have deductions on this page which you'll no longer be deducting, then ask your tax preparer if you have other options in deducting those.

If you are taking minimum required distributions from your IRA, you can consider paying a portion of your financial advisory fees from that account rather than writing a check; it's a tax-free distribution then.

If you're using a home equity loan, can you pay that off or use a second mortgage instead? The interest you pay on the home equity loan is no longer deductible.

Think about bunching deductions into alternate years. Let's say you typically have $8,000 in taxes paid, $9,000 in interest, and $5,000 in charitable gifts. That'll total $22,000. If you're married filing joint, you can take the standard deduction of $24,000, the higher amount for 2018.

But consider shifting $4,000 of your taxes paid from late in 2018 to January 2019, and giving $10,000 in January 2019 to cover both 2018 and 2019 commitments. That will let you bunch itemized deductions in 2019 to $31,000, with $12,000 taxes paid ($4,000 shift plus $8,000 normal amount), $9,000 in interest, and $10,000 gifts ($5,000 shift plus $5,000 normal amount).

Consider using Qualified Charitable Distributions (QCDs) up to the amount of your minimum required distribution from your IRA for charitable gifts. This makes sense particularly if you're using the new standard deduction in every year and not itemizing.

Form 1040

For those of you who have a number on line 45 Alternative Minimum Tax, you may be lucky. The exemption increased from $86,200 up to $109,400 for joint filers, and similarly for other filers.

Odds and ends

529 college savings plans will now allow a $10,000 withdrawal per year for students in K-12. The child tax credit moved from $1,000 to $2,000. After 2018, those paying maintenance/alimony no longer get a deduction for that while those receiving same no longer classify it as income.

For those getting income from a pass-through entity such as a partnership, S-Corp, or sole proprietorship, you can deduct 20 percent of business income before paying tax; it's phased out for higher income earners. Your business can no longer deduct entertainment expenses, just meals.

In a nutshell, most folks will pay slightly lower taxes under the new bill. The IRS is not recommending any changes to W-4 withholdings right now due to the new bill. If you're using safe harbor provisions now to make estimated tax payments during the year (to match the taxes due on the prior year), you'll want to continue that. Once we have all filed for 2018, in April 2019, we'll get a chance to see the final impact.

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