More Changes in the Tax Law

By Jacob Ansel

WITH THE PASSAGE OF THE NEW TAX Cuts and Jobs Act (TCJA), the old tax laws are almost unrecognizable. And with the start of 2018 tax filings just around the corner, it's important to be aware of some key changes. Here are some that may impact you.

Perhaps the most controversial aspect of tax reform was the SALT (state and local taxes) deduction. Early versions of the bill proposed eliminating the deduction, which didn't sit well with some key Republicans in high-tax states. The final version of the bill keeps the deduction, but limits the total deductible amount to $10,000, including income, sales, and property taxes. In the past, you could deduct all real estate tax paid on your house, all state tax deducted from your paycheck, and whatever you paid to the state as estimated tax payments.

The new tax law nearly doubles the standard deduction amount. Single taxpayers will see their deductions jump from $6,350 to $12,000 for 2018 taxes. Married couples filing jointly see an increase from $12,700 to $24,000.

Personal tax exemptions are gone for 2018. The IRS previously gave us a nice deduction of $4,050 per child and per dependent; that's gone under the new tax law. It doesn't matter how many people you claim or how many children or relatives you have as dependent.

On a positive note, the top federal tax rate has decreased from 39.6% to 37%, which offers a healthy tax savings for high income tax payers. Even though you're losing state and local tax deductions, the new law decreases the tax rate and eliminates the AMT (alternative minimum tax).

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A slew of updates from the IRS and major tax reform passed by Congress could alter your situation for the 2018 tax year. The IRS unveils its changes, including cost-of-living adjustments for retirement savings and inflation changes for certain tax provisions which could result in a big difference in how much you pay.

Meals and entertainment deductions have changed in a big way. Entertainment, for the most part, was deductible at a rate of 50%. If you took a client to a ballgame and discussed business, you could take a 50% deduction from the total cost. Under the new rules, client entertainment expenses are a thing of the past. If your business incurs expenses for amusement, you can no longer claim a 50% deduction. These activities include things like golf outings, sporting events, concerts, hunting, and fishing trips, and country club dues. Client meals are still a gray area though. It's unclear if eliminating the deduction for entertainment expenses applies to business meals. Until this becomes clear, consider meals nondeductible.

The Tax Cuts and Jobs Act offers a 20% deduction for qualified business income from so-called pass-through entities, which include S corporations and limited liability companies. Under the old tax code, income from these small businesses would pass-through to the owner and were subject to individual income tax rates as high as 39.6%. Now, entrepreneurs are subject to a tax break on the income their businesses generate, but many of them face a key decision: is it now time to incorporate and if so what entity should you choose? The law is complicated and difficult to understand. More folks may be interested in forming an LLC since it can save taxes and protects owners from having their personal assets seized by the business's creditors.

There are new contribution limits for retirement savings. Employees who participate in certain retirement plans [401(k), 403(b), most 457 plans, and the Thrift Savings Plan] can now contribute as much as $18,500 this year, a $500 increase from the $18,000 limit for 2017. Savers who contribute to individual retirement accounts will have higher income ranges following cost-of-living adjustments. For single taxpayers, the limit will be $63,000 to $73,000. For married couples, the phase-out range will vary depending on whether the IRA contributor is covered by a workplace retirement plan or not. When the spouse who is investing has access to an employer plan, the range is $101,000 to $121,000.

This is just the tip of the iceberg as far as tax changes. It took us years and hundreds of hours to understand the prior tax laws and just when we thought we knew the rules that playbook has been thrown in the trash bin. Taxes are complicated. Even the IRS is scrambling to keep up with all the changes in the new tax reform bill. Make sure you talk to your tax advisor to take the guesswork out of the new tax laws. ❑