Plan now for far-ranging 2018 tax reforms.

By Ariel A. Marin, JD, LL.M., CFP®

The Tax Cuts and Jobs Act of 2017 made sweeping changes to the nation's income tax laws starting this year, yet many of these changes may not be apparent until taxpayers embark upon their 2018 filings next spring. In some cases, the new rules may come as a shock, with the opportunity to maneuver then lapsed. It is therefore important to keep in mind some of the most significant changes impacting individual filers as they track expenses, maintain records, and plan with an eye towards tax efficiency.

Notably, income tax rates have been generally reduced, while applicable income thresholds have increased. Taxpayers may be well served by reviewing estimated payments and withholding to avoid overpayment. Note that many payroll firms recently made adjustments for employee withholding based on updated IRS guidelines. While rates are broadly lower, taxpayers should heed the adage: what Congress giveth with one hand, it taketh away with the other.

In exchange for reduced rates, many common deductions have been reduced or eliminated. Chief among them include:

- Elimination of personal exemptions;
- A $10,000 maximum cap for the deduction for state and local taxes (including property taxes, as well as state sales taxes if elected in lieu of state income taxes);
- A reduction in the level of indebtedness on a primary residence that is eligible for the mortgage interest deduction (down to $750,000 from $1,000,000 of mortgage debt); and
- Elimination of miscellaneous itemized deductions subject to the 2% of the adjusted gross income (AGI) floor—popular deductions here include unreimbursed employee expenses, tax prep fees and investment advisory fees.

To offset the loss of the personal exemption (for larger families at least), taxpayers with children under age 17 are eligible for an expanded child tax credit of $2,000 per child. This credit is increased from the prior $1,000, and the threshold for phaseout is increased significantly (from $110,000 married filing jointly to $400,000 – single filers now face a $200,000 threshold, up from the prior $75,000).

While the cap on state and local taxes will hit individuals in high income tax states the hardest, changes in the alternative minimum tax (AMT) may help. Many individuals in high tax states find themselves subject to the AMT, since state taxes are added back when computing such tax. While the widely despised AMT was not repealed as some had hoped, the exemption and applicable phase-out level were increased significantly. As a result, the changes may cancel each other out, leaving no net tax increase for many.

In a sigh of relief for some, the reduced mortgage debt level for interest deductions applies to new (post 12/15/2017) mortgages—existing mortgages or refinances of existing mortgages are generally grandfathered. The home equity loan interest deduction, however, was eliminated in many contexts, regardless of when the debt was incurred.

A notable exception applies for home equity loans used for capital improvements to the home, so long as total mortgage debt does not exceed the applicable $750,000/$1,000,000 threshold. Another limited exception applies for interest deductible under a separate tax rule (e.g., to obtain a taxable investment). In such case, the taxpayer can make a special election to treat the debt as "not secured by a qualified residence" —once made, though, the election is irrevocable unless the IRS consents to revoke the election.

Notably, the charitable deduction was not altered with tax reform—in fact, generous donors may claim a larger deduction for cash gifts to public charities, with the applicable AGI limit increased from 50% to 60%. Many taxpayers may forgo itemized deductions altogether, though, with the higher standard deduction, which increased from $6,500 single / $13,000 married-joint to $12,000 single / $24,000 married-joint.

While this increase will hopefully not discourage charitable giving, it will greatly simplify the tax preparation process for many (and perhaps reduce those pesky, now non-deductible, tax preparation fees).

While these are just some of the most common individual tax return items, myriad other tax rules were impacted significantly within the 429 legislative pages. Other items of potential significance include:

- Elimination of personal casualty and theft losses (unless incurred in a federally declared disaster area);
- Elimination of the alimony deduction (*for agreements entered into after December 31, 2018*); and
- Repeal of the health insurance individual mandate starting in 2019 (or rather the elimination of the "shared responsibility payment" penalty for failure to obtain compliant insurance). The 3.8% Medicare surtax remains intact (at previous thresholds).

Of equal significance with this latest reform is the continued grand legislative tradition of temporary tax provisions—nearly all changes impacting individuals are scheduled to automatically sunset and revert to prior law beginning in 2026, unless Congress acts to extend such rules. As with "who shot JR?," taxpayers are left in suspense yet again.

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