DEO, LAMANNA, DEO & CO., PC
Certified Public Accountants
www.dldcpa.com

Patrick J. Deo, CPA, Cr.FA
patd@dldcpa.com
Anthony LaManna, CPA
tonyl@dldcpa.com
Michael J. Deo, CPA
miked@dldcpa.com

DLD NEWS AND VIEWS

April/May 2018

April 15th, oops…April 17th has come and gone! Except for those who have filed for extension to file their tax return, we can safely put into storage all our 2017 information. Now more "fun and excitement" begins as we plan for 2018 tax time. The passage of the Tax Cuts and Jobs Act (TCJA) is playing a significant role in this process for individuals, trust and businesses. We previously reported on some of the significant changes. Checkout our website.

WITHHOLDING

Reduction in the tax rates, tax brackets, itemized deductions and increased standard deduction, as well as, increased credits and eliminating a deduction for exemptions warrants a close look at what is being withheld from your paycheck for federal income tax. The Internal Revenue Service has developed a calculator for determining federal withholding. You can access it on the Internal Revenue Service website at https://www.irs.gov/individuals/irs-withholding-calculator. The enactment of TCJA should not impact on your New Jersey income tax withholding, but could have an impact in states that "piggy back" on the Federal tax structure.

ITEMIZED DEDUCTIONS vs. STANDARD DEDUCTION

The TCJA has eliminated or curtailed many heretofore common itemized deductions. Most significant is the elimination of miscellaneous itemized deductions which include, employee business expenses, fees paid to financial planners, broker management fees, tax preparation fees, union dues and estate planning fees to name a few. There is also a "cap" on deducting state and local income taxes and real estate taxes, as well as limiting the deduction for mortgage interest. In lieu of these, the standard deduction for single filers has been increased to $12,000 and for married filing joint the standard deduction has been increased to $24,000.

It is recommended that a review be made of your 2017 tax return to determine the impact of these changes in 2018. In some cases, the loss of the itemized deduction may involve restructure of your finances and how you manage them. For example, if mortgage interest on equity loans will not generate a deduction, maybe pay it off, particularly if you are earning taxable income on savings or an investment that is less than the mortgage interest rate you are paying. If possible, eliminate or reduce expenditures for non-deductible miscellaneous expenses noted above.

CREDITS

Most individual credits have been retained with some being increased. There was a substantial increase in the child tax credit to $2,000. This credit somewhat minimizes the “pain” of losing the exemptions. Unfortunately, if you have dependent children over the age of 24, you lose the benefit of the exemption as well as the credit. If your dependent child is incurring college tuition the American Opportunity Credit and the Lifetime Learning credit are still available

CHARITABLE CONTRIBUTIONS

This was a topic of much debate when TCJA was being discussed and finalized. It is valid that in general a taxpayer who utilizes the increased standard deduction will get no tax benefit from their charitable donations. As we previously reported, there is a major exception. If you are 70 ½ years of age or older and have an IRA, you can make your charitable contributions directly from your IRA. Doing so reduces your income directly without the need to itemize your deductions and you still get the benefit of the standard deduction. In addition, the amount of the contribution applies toward your “minimum required distribution” thereby reducing your gross taxable income. Recommend you check with the financial institution as to their procedures for making the contributions from your IRA and if there is a minimum amount. The contribution can be made by a direct transfer from your IRA to the charitable organizations or by having a check from the IRA account be made payable directly to the charitable organization.

BUSINESS

While the TCJA has simplified many aspects of income tax filing for individuals, businesses will find less simplification and a bit more complexity depending on the nature of the business. Notwithstanding, businesses may benefit from lowered tax rates, increased write-off of capital expenditures, new deduction for flow-through entities, partnerships and S-Corps, and retention of various credits.

PROGNOSIS

We are seeing, when doing the 2017 individual returns, some of our individual clients will benefit from TCJA and others not benefitting. The actual amount of income itself is not necessarily the determining factor. What is also critical is loss of exemptions, age of dependents, amount and types of itemized deductions. Bottom line, although we are seeing many of our clients benefitting, as usual under the prior tax laws, there is no “cookie cutter” answer to the question - will I benefit or lose? Of course, the premise is based on 2017 data and not what actually will happen in 2018. For our business clients, there will need to be a closer look at the pluses and the minuses and what business and tax planning steps are taken during the year. We believe however that many but not all, of our business clients will fair well.

Think about it…

....we can not always avoid adversity, but we can almost always choose how we cope with it....