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DLD NEWS AND VIEWS

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Most likely, everyone is in the throes of gathering information to prepare their 2017 tax return. However, we are in 2018 and will need to deal with tax changes brought on by the Tax Cut and Jobs Act. A previous News & Views highlighted some of the significant changes. Some of these changes require immediate record keeping modifications and/or spending adjustments.

Miscellaneous Itemized Deductions

There no longer is a deduction for unreimbursed employee expenses. Consequently, if your employer is providing an allowance for these expenses that is included in your wages, you will be reporting the income with no offset for the expenses incurred. Consideration should be given to addressing this issue with your employer to provide for an accountable expense reimbursement arrangement.

Payments to financial advisors for consultation or for managing your portfolio, tax and estate planning, union dues, etc., are also not deductible….although in a lot of cases the Alternative Minimum Tax (AMT) eliminates the benefit so there is no tax benefit from these deductions.

Meals and Entertainment Business Expenses

Prior to the law changes, only 50% of expenses incurred for business meals and entertainment were deductible. Effective January 1, 2018 through December 31, 2025, none of these expenses are deductible. Employers and employees will need to adjust their policies to deal with this change.

Mortgage Interest

New restrictions will limit the ability to deduct mortgage interest and home equity interest expenses. For new mortgages the interest is only deductible for loans up to $750,000. In most cases, interest paid on home equity loans will not be deductible. Consequently, borrowing on the equity of your home to buy a car, pay tuition, make large personal expenditures, will not generate a tax benefit.

State and Local Taxes

Payment of state and local income taxes, real estate taxes, and sales taxes will only be deductible up to $10,000. This could impact on the decision of where to live, since there is no tax benefit to paying these taxes in excess of $10,000. However, similar to miscellaneous itemized deductions, if you were subject to AMT in the past, you received no benefit from the state and local taxes you paid.

Charitable Deduction

Donations to qualified charities are still deductible if you will be itemizing. If using the standard deduction, there will generally be no tax benefit attributable to the donation. A major exception is available if you are age 70 ½ or older and have an IRA. By making the charitable donation directly from the IRA, it directly reduces your income without the necessity of having to itemize your deductions. An added benefit - the amount of the donation directly made from the IRA reduces dollar for dollar your Minimum Required Distribution.

Increased Standard Deduction vs. Itemized Deduction

For married couples filing a joint return the standard deduction is $24,000. For singles the standard deduction is $12,000. Elimination of deductibility of former itemized deductions will necessitate in many cases the use of the new standard deduction. As a result, there is a need to rethink previous strategies and focus on effective use of the standard deduction vs. itemized deductions.

Exemptions and Qualified Child Credit

The deduction for exemptions is eliminated but the qualified child credit was increased to $2,000. These two changes significantly impact the tax liability of families. In some cases, it will be a major tax reduction. In other cases, it will be of little or no help and might increase the tax liability.

Business Capital Expenditures

Businesses will be able, in general, to deduct 100% of the cost of purchasing equipment, machinery, furniture, computers, etc. The law also creates more favorable calculation of inventory for mid-size and smaller businesses, which could reduce their tax liability

Planning

Without a doubt, planning for the impact of the above changes, as well as many other changes, is of critical importance to avoid "surprises" when you eventually prepare and file your 2018 tax return. Part of the planning involves the amount of tax withheld from your wages and/or the amount of quarterly estimated tax payments that you make. In many respects, the new tax law will simplify filing for tens of millions of individuals, but for high tax states like New Jersey, the simplification does not necessarily mean tax savings. For businesses there are a lot of changes, not necessarily simplification. There are enhanced deductions and new deductions for businesses of all sizes and types and lower corporate tax rates, which will mainly benefit the bigger businesses with hopes for increased employment and economy.

There is no "cookie cutter" answer on how it will affect everyone. Once the IRS has issued guidance and we have the software, then reasonable projections can be made.

Think about it…

".....with change, comes new conquests and innovations.....