Zulch

Tax Consultants & Accountants

Important Tax Reform Information

A final tax bill was negotiated by the House and Senate on Friday, Dec 15th, containing *potential* tax law changes to take place for tax year 2018. We have put together a summary of the tax bill along with some of our recommended strategies.

Please note: ***This tax bill has not yet been voted in to effect.*** This summary contains the final changes that are going to vote. The vote is expected to take place this week. We wanted to inform you of these potential changes now as our office will be closed Dec 25 - Jan 1 for the holidays.

Pending Tax Bill for 2018:

- Standard deduction will be increased to $24,000 for Married Filing Joint taxpayers (up from $12,700 in 2017) and $12,000 for individuals (up from $6,350 in 2017).
    - Our note: This may cause many taxpayers to use the standard deduction as opposed to itemized deductions. You can find this amount on line 40 of your 2016 Form 1040 that we emailed to you last tax season. If the amount on this line is less than these new amounts, then you will *most likely* use the standard deduction in 2018 and may want to consider the tax strategies that we mention below.

- Personal exemptions will be eliminated (the previous amount was $4,050 each for taxpayers, spouses and dependents).

- Maximum of $10,000 deduction for a combination of real estate and income taxes (or real estate and sales taxes)
    - Our note: This is big and will affect most of our clients in New York, New Jersey & Connecticut.
    - Our suggestions for clients who may use the standard deduction in 2018 but itemize in 2017 or clients who may itemize their deductions in 2017 & 2018 but have high real estate tax and/or income/sales tax which combined may exceed $10,000 (See lines 5 & 6 on Schedule A of your 2016 Form 1040 for these amounts -- If you don't have Schedule A, that means you took the standard deduction in 2016):

        - You may want to consider prepaying some of your 2018 real estate taxes in 2017. This would allow you to derive a benefit on your 2017 return from something that may give you no benefit in 2018. To do so, please contact your town tax authority directly to make the payment.
        - For NY Estimated taxpayers: You may want to consider paying your 4Q 2017 estimated tax voucher by 12/31/17 as opposed to waiting until early 2018.

- Business income from pass-through entities (S-Corporations, Partnerships, and sole proprietorships filed as Schedule C) which are reported on personal tax returns would get a 20% deduction which will phase out at $157,500 of individual income or $315,000 of married filing joint income.
    - Our note: This should ensure that most taxpayers can remain with their current entity structure until their income passes these thresholds. We hope to have more details once this becomes law.

- Corporations (C-Corps) will have a tax rate of 21% which would be permanent (the previous tax rate was 35%).

- Charitable Contributions would remain in effect for those who itemize their deductions. However, the current limitation of 50% of income will increase to 60%.
    - Our suggestion: If you feel that you will itemize again in 2017 but fall into the standard deduction for 2018, you may want to consider prepaying some of your charitable contributions that you would have made in 2018 by 12/31/17.

- Mortgage Interest will still be deductible for those who itemize. However, it will only be allowed for new mortgages on first and second homes, and only the interest on the first $750,000 borrowed is deductible (previously was allowed up to $1 million). The interest on home equity loans will no longer be deductible (previously allowed up to $100,000 of equity loan or outstanding home equity line of credit).
    - Our suggestion: If you feel that you will itemize again in 2017 but fall into the standard deduction for 2018, you may want to consider prepaying your January 2018 mortgage payment by 12/31/17.

- Child tax credit will increase to $2,000 (previously $1,000) per child, and $1,400 is refundable which means taxpayers will receive the money even if they do not owe income tax. (The credit starts to decrease when taxpayer joint income exceeds $400,000).

- The Health Insurance mandate will be repealed in 2019.

- The estate tax exemption has been increased to approximately $11 million (previously $5.49 million)

- The tax bracket and rates have also changed.
    - 2017 Rates:

      https://files.taxfoundation.org/20170123140911/TaxFoundation-FF534.pdf

2018 Income Tax Brackets:

Rate	Individuals	Married Filing Jointly
10%	Up to $9,525	Up to $19,050
12%	$9,526 to $38,700	$19,051 to $77,400
22%	38,701 to $82,500	$77,401 to $165,000
24%	$82,501 to $157,500	$165,001 to $315,000
32%	$157,501 to $200,000	$315,001 to $400,000
35%	$200,001 to $500,000	$400,001 to $600,000
37%	over $500,000	over $600,000