Navigating the 2018 Tax Year

The Tax Cuts and Jobs act made sweeping changes to our tax regime. Most of the changes took effect on January 1, 2018 and many taxpayers have significantly different tax pictures today than they did in 2017. Some of the most significant changes you will see on your taxes this year include:

- **New Form 1040 -** Form 1040, *U.S. Individual Income Tax Return*, has been reformatted into a "postcard" size, with six new numbered schedules. The new form also replaces Form 1040A and Form 1040-EZ.
- **The standard deduction has nearly doubled** - The standard deduction has jumped to $12,000 for single/married filing separately (MFS) filers and $24,000 for married filing jointly (MFJ) filers.
- **Some popular exemptions are gone** - Personal and dependent exemptions are gone, but the child tax credit was doubled.
- **Itemization may no longer be the best strategy for some** - Many taxpayers will no longer itemize and will take the standard deduction instead.
- **There are important changes to itemization requirements** - For those taxpayers who do itemize this year, there are several changes:
    - All miscellaneous itemized deductions subject to the 2% floor under previous law are repealed through 2025. This would include tax prep fees and investment management fees.
    - The deduction for state and local income or property taxes is capped at $10,000 ($5,000 for married taxpayers filing separately).
    - The threshold for deducting medical expenses has been lowered to 7.5% of adjusted gross income (for 2017 and 2018 only).
    - Moving expenses are not deductible, except for members of the armed forces on active duty who move pursuant to a military order and incident to a permanent change of station.

    - Personal casualty losses are deductible only if the loss is attributable to a federally declared disaster.
    - The overall limitation on itemized deductions has been suspended through 2025.

- **The AMT Exemption has increased** - As a result, many taxpayers will no longer be subject to the alternative minimum tax (AMT).
- **There's new relief for underpayment penalties** - For taxpayers who under withheld their taxes throughout the year, the IRS is not charging a penalty as long as 100% (or 110% if income is above a certain threshold) of prior year tax or 85% of the current year tax is paid through estimated payments or withholding; previously, the requirement was 90% of current year tax.

The window for most 2018 tax planning has come and gone, but there are still a few things you can do to put yourself in the best position possible:

- Send your tax information to your CPA as early as possible; there has been significant uncertainty surrounding the new tax laws and your CPA will likely need extra time to carefully assess your situation.
- If you haven't already funded your retirement account for 2018, do so by April 15, 2019. That's the deadline for contributions to a traditional IRA, deductible or not, and to a Roth IRA. If you have a SEP and extend your tax return, you have until October 15, 2019 to fund the account. Plus – as a sole proprietor, your SEP contribution is deductible from your income.
- Consider the Qualified Business income deduction if eligible – pass through entities and Schedule C sole proprietorships can qualify for a 20% tax deduction unless a limitation exists. This is a very complicated section of the new law, so it's best to discuss your eligibility with your tax advisor.
- Seek the advice of a professional and start planning for next year – there may be ways to restructure your affairs to maximize the new tax regime.

The recent tax law changes have created confusion among filers this year, but our MAI team is here to help you navigate the complexities of your tax picture. We recognize your situation is unique, so please contact us at any time with questions.