SUMMIT
Tax & Accounting, LLC

# 2018 Tax Reform

Written by Summit Tax & Accounting, LLC Team

Congress has enacted the biggest tax reform law that we have seen in thirty years. Below are a few items worth noting regarding the changes.

1. Lower tax rates - The Tax Cuts and Jobs Act reduces tax rates for many taxpayers effective for the 2018 tax year. Additionally, many businesses will also see reduced taxes in 2018.

   a. If you are thinking of converting a regular IRA to a Roth IRA, it is time to make your move. Take advantage of the lower tax rates in the current tax year.

   b. The reduction or cancellation of debt generally results in taxable income to the debtor. If you are planning to make a deal with creditors involving debt reduction, it is safe to move forward with any debt cancellation income.

2. Larger standard deduction – Beginning in 2018

   a. Married filing joint – increased to $24,000

   b. Single – increased to $12,000

   c. Head of Household – increased to $18,000

3. Itemized standard deductions – Beginning in 2018

   a. Individuals will only be able to claim an itemized deduction of up to $10,000 ($5,000 for a married taxpayer filing a separate return) for real estate taxes and state income tax.

   b. The itemized deduction for charitable contributions remain the same. But because of the increased standard deduction limit, charitable contributions may not yield a tax benefit for many because they won't be able to itemize.

   c. The new law temporarily boosts itemized deductions for medical expenses. For 2017 and 2018 these expenses can be claimed as itemized deductions to the extent they exceed a floor equal to 7.5% of your adjusted gross income (AGI).

4. Other changes

   a. Like-kind exchanges were a popular way to avoid tax on the appreciation of an asset, but now such swaps are possible only if they involve real estate that isn't held primarily for sale.

   b. For decades, businesses have been able to deduct 50% of the cost of entertainment directly related to or associated with the active conduct of a business. Under the new law, for amounts paid or incurred after December 31, 2017 there's no deduction for such expenses.

c. Alimony payments will not be deductible by the payor or includible in the income of the payee effective for any divorce decree or separation agreement executed after 2018.

d. The new law suspends the deduction for moving expenses after 2017 (except for certain members of the Armed Forces), and also suspends the tax-free reimbursement of employment-related moving expenses.

e. The new law suspends the deduction for employee business expenses paid after 2017.

Please keep in mind that we've described only some of the changes from the new tax law. If you would like more details about any aspect of how the new law may affect you, please do not hesitate to call our office at 217-877-6766.