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Dear Clients:

The Tax Cuts and Jobs Act (TCJA), enacted immediately before the start of 2018, has been called the most significant tax reform legislation since 1986. This tax will have a significant impact on almost every individual taxpayer and business for tax years starting with/in 2018. For starters, the TCJA has revised and reduced tax rates/brackets, increased the standard deductions, and eliminated the personal exemptions deduction. The TCJA has modified, reduced, increased and/or eliminated a plethora of deductions, credits and taxes. Below is a short summary of some of the major changes made by the TCJA for tax years 2018 and forward which will impact personal tax returns. This summary is for educational purposes only and is not to be relied on for specific tax advice. Please contact us before undertaking any strategies as a result of information contained in this letter.

Adjusted Gross Income (AGI)

Throughout this article, we will refer to the term AGI. AGI refers to the total of a taxpayer's gross income which is subject to tax. AGI is the starting point for calculating the amount of tax a taxpayer will owe prior to applying itemized deductions or the standard deduction.

ACA Health Insurance Requirement

The penalty for not having health insurance for tax year 2018 is still in effect. Beginning with tax year 2019, the penalty for not having minimum essential health insurance coverage is zero.

Gifting Limits

Taxpayers can gift up to $15,000 per recipient for tax years 2018 and 2019. Any gifts in excess of this amount will require a gift tax return filing.

Qualified Business Income (QBI) Deduction

This deduction is claimed against Adjusted Gross Income (AGI). In other words, it is deducted after AGI has been computed. The deduction is available for the following business owners subject to numerous restrictions:

- Sole proprietors (Schedule C)
- Rental properties
- S Corporations
- Partnerships

The deduction can be as high as 20% of the QBI. This deduction is complex and well beyond the scope of our tax summary. Please visit our website at www.buterbaughcpa.com, click on "Tax News & Articles" and click on "The Tax Adviser Article - Understanding the new Sec. 199A business income deduction" to read more on this topic.

Moving Expenses

The deduction for moving expenses is no longer allowable under the TCJA. The deduction is still available for members of the Armed Forces on active duty who move pursuant to a military order. Employers are no longer allowed to deduct moving expenses for employees moving after December 31, 2017.

Depreciation – Section 179

A taxpayer may elect to expense the cost of any Section 179 property in the year the property is placed in service. The new tax law increased the maximum deduction from $500,000 to $1,000,000. The Section 179 deduction begins to phase-out when new equipment purchases total $2,500,000.

Business Deduction for Entertainment

The new tax law disallows a deduction for business entertainment. Please visit our website at www.buterbaughcpa.com, click on "Client Resources" and then under the "Individual" header, click on "Entertainment & Meals – Important Changes in Reporting and Deducting" to view our analysis of this change in the law.

Alimony

Alimony payments are no longer deductible for any agreement executed or modified after December 31, 2018. Similarly, alimony payments received will no longer be taxable for any agreement executed or modified after the same date.

Roth IRA Conversions

Taxpayers are still permitted to convert a Traditional IRA to a Roth. Under the old tax law, a taxpayer was permitted to undo this transaction prior to the extended due date for the filing of their tax returns. Under the new tax law, a taxpayer is not permitted to re-characterize (undo) a Roth conversion.

529 Savings Plans

529 plans are tax-advantaged investment accounts originally designed to help families pay for college. 529 plans have always allowed tax-free withdrawals as long as the funds were spent on eligible, post-secondary institution expenses, such as tuition, room and board, books, etc.

The new tax bill now allows tax-free withdrawals for parents to pay for their children's private elementary and high school expenses.

Itemized Deduction Overall Limitation

The phase-out of the itemized deductions provision is suspended. Previously, itemized deductions were phased-out when taxpayer's AGI exceeded certain dollar thresholds.

State Tax Deduction Limitations

One of the more controversial areas of change was the limitation on state and local tax payments. For the year 2018 and for future years, taxpayer deduction for state and local income taxes including real estate taxes are limited to $10,000 per year.

Personal Casualty and Theft Losses

The deduction for casualty and theft losses are no longer deductible other than for a federally-declared disaster area.

Charitable Donations

The overall limitation for charitable donations to public charities is increased to 60% of AGI. This limitation was previously 50% of AGI. Also, no charitable deduction is allowed for a payment to a higher educational institution for which the payer receives the right to purchase tickets or seating to an athletic event.

Qualifying Charitable Distributions (QCDs)

The new tax law continues to allow taxpayers over age 70 ½ an excellent opportunity to make charitable donations out of their IRA Required Minimum Distributions (RMDs). Taxpayers are permitted to direct their IRA to pay a portion, or all, of their RMD directly to a qualifying charity. The QCD is not subject to income taxation and is an excellent strategy to reduce taxable income for charitable donations for taxpayers who do not itemize deductions. Please visit our website at www.buterbaughcpa.com, click on "Client Resources" and then under the "Individual" header, and click "IRA RMD Planning Opportunity" to view our article on this topic.

Arizona Tax Credit Donations

Any AZ tax credit donations made **after** August 27, 2018 are no longer deductible as a charitable donation on your Federal tax return. You may still make these donations for AZ credit purposes, but any made after August 27, 2018 will only have the effect of reducing your Arizona tax liability dollar for dollar.

Medical Expenses

The threshold for deducting medical expenses was reduced to 7.5% of AGI. After tax year 2018, the threshold increases back to the previous limit of 10% of AGI.

Limitation on Home Mortgage Deduction

New limitations apply for deducting mortgage interest on a primary and a second home starting in 2018. You can deduct the home mortgage interest on the first $750,000 ($357,500 if married filing separately) of indebtedness. However, the limitation is $1,000,000 ($500,000 if married filing separately) if your mortgage was incurred before December 16, 2017. Please visit our website at www.buterbaughcpa.com, click on "Tax News & Articles" and click on "IRS Publication 936 - Home Mortgage Interest Deduction - 2018 Tax Returns" to view IRS Publication 936 for a more detailed explanation of these rules.

Limitation on Home Equity Loan Interest

You can no longer deduct the interest from a loan secured by your home unless the loan proceeds were used for home improvements.

Mortgage Insurance Premiums

The deduction for mortgage insurance premiums is no longer available for years beginning after December 31, 2017.

Miscellaneous Itemized Deductions Subject to the 2% Limitation

Effective for tax year 2018, the deduction for miscellaneous itemized deductions subject to the 2% limitation has been eliminated. Specifically, the following deductions are no longer deductible:

- Employee business expenses
- Investment advisor fees
- Investment expenses
- Job search expenses
- Tax preparation fees (unless some of the fee can be allocated to a business or rental property)
- Safe deposit box fees
- Most legal fees including estate planning

Lower Tax Brackets

The TCJA made significant reductions to the tax rates for 2018. These new lower tax rates are scheduled to expire in 2025. Please visit our website at www.buterbaughcpa.com, click on "Client Resources" and then under the "Individual" header, click on "2017/2018 Marginal Federal Tax Rates Comparison" to view our summary comparing the tax rates between 2017 and 2018.

Alternative Minimum Tax (AMT)

The TCJA has greatly increased the limitations on when taxpayers are subjected to AMT so that a greater percentage of taxpayers will not be subject to the additional tax. The AMT exemption amounts and phase-out thresholds have been increased:

- AMT Exemption amount increased to $109,400 for Married Filing Joint ($70,300 for Single and Head of Household)
- AMT Exemption phase-out increased to $1Million ($500,000 for Single and Head of Household)

The new increases, along with fewer adjustments and preference items, will result in significantly fewer taxpayers subject to AMT starting with the 2018 tax return.

Personal Exemptions and Standard Deduction

The TCJA disallows personal exemptions and increases the standard deduction to $12,000 for Single taxpayers and $24,000 for married couples who file a joint tax return. The standard deductions was indexed for inflation each year after 2018.

Tax Credits for Children and Other Dependents

The tax credit for children under age 17 has been increased to $2,000 per child. There is also a $500 credit for qualifying dependents, other than children under age 17. This credit is available for other dependents such as a parent. The income thresholds were increased for phase-out limitations. The credit does not begin to phase-out until AGI exceeds $400,000 for married couples and $200,000 for all other taxpayers.

Limitation on Business Losses

The new tax law limits a taxpayer's ability to use a business loss in 2018 to no more than $250,000 (single taxpayer) and $500,000 (joint filers). Any loss in excess of these limits will carryforward to 2019. The limitation is adjusted for inflation in future years.

Net Operating Losses

For tax years after 2017, taxpayers may no longer carry a net operating loss (NOL) back to a prior year. The new law eliminates the 20 year limitation on NOL carryforwards. There is now no limitation on the number of years an NOL can carryforward.

For NOLs arising in 2018, the NOL deduction is limited to 80% of taxable income (taxable income is computed without regard to any NOL deduction). The portion of the NOL which is not allowed to be claimed in a carryforward year will continue to carryforward to the next year.

Kiddie Tax

This tax applies generally to children under age 19 (24 if a full time student) who have unearned income in excess of $2,100. Common examples are interest and dividend income and capital gains. The parent's tax rate is no longer used to calculate the Kiddie tax. The taxable income for unearned income is now taxed according to the tax brackets for an estate and trust. The estate and trust tax brackets are in general, much less favorable than individual tax brackets. Thus, this change is generally not advantageous to most taxpayers.

We have covered a lot of changes. Please feel free to call our office if you have any questions about any items contained in this letter.

Thank you for placing your trust in our firm.

Sincerely,

David L. Buterbaugh, CPA