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# 2018 Tax Newsletter

## Ten Changes in 2018 Tax Law

### 1. Personal exemptions

You can no longer claim a deduction for yourself, your spouse or any of your dependents. Each personal exemption in 2017 provided a $4,050 tax deduction. For example, a family of four could deduct a total of $16,200 in addition to a standard deduction, itemized deductions and any adjustments to income. The loss of this deduction greatly minimizes the tax benefit of the increased standard deduction.

To make up for the loss of this deduction, the child tax credit for qualifying children under the age of 17 has been increased by $1,000 and made available to more taxpayers. Additionally, there is a new $500 credit for all other dependents, though there is no credit for the taxpayer and spouse.

### 2. Alimony

Alimony that's required by divorce or separation decrees or agreements that are executed after December 31, 2018 is not deductible. Additionally, alimony received as a result of divorce or separation decrees or agreements executed after December 31, 2018 is not included in taxable income, either. It is important to note that this new rule does not affect 2018 returns or anyone who is currently paying or receiving alimony. Taxpayers who are divorced before December 31, 2018 will continue to deduct or report alimony payments.

### 3. Nonmilitary job-related moving expenses

Job-related moving expenses that are paid by an employee are not deductible. Only an active-duty member of the armed forces who moves due to a military order can claim that activity as an adjustment to income. As of the new law, employee payments of non-military moving expenses will now be included in taxable wages, tips and other compensation reported on a W-2.

### 4. Home equity loan interest

You can claim an itemized deduction for your home mortgage interest on acquisition debt — that is, debt secured by the home and used to buy, build or substantially improve it — on up to $750,000 in principal ($375,000 if married and filing separately) on home purchases made after December 15, 2017. Interest on existing acquisition debt of up to $1 million in principal for home purchases made prior to December 16, 2017 is “grandfathered” and remains deductible. The higher $1 million principal limit also applies to acquisition debt incurred before December 15, 2017 that is subsequently refinanced.

Home equity interest – interest on mortgage debt to pay for anything other than to buy, build or substantially improve a residence – is not deductible. Additionally, existing home equity debt is not grandfathered.

It is now more important than ever for homeowners who can itemize to keep separate track of acquisition debt and home equity debt going back to the original purchase of a residence.

## 5. Theft losses

Personal theft losses can no longer be deducted on Schedule A.

## 6. Casualty losses not from a disaster declared by the president

Only a taxpayer who suffers a personal casualty loss from a disaster declared by the president will be able to claim a personal casualty loss as an itemized deduction. This policy is subject to $100-per-casualty and 10%-of-AGI limitations.

## 7. Employee business expenses

None of the miscellaneous expenses that were subject to the 2%-of-AGI exclusion are deductible on Schedule A. Employee business expenses that haven't been reimbursed are the most prominent in this category.

You can no longer deduct business meals, travel and entertainment from your taxes. These deductions included using your car for business as well as job-related education, job-seeking costs, a qualified home office, union and professional dues and assessments, work clothes and work supplies.

## 8. Investment expenses

Investment expenses are also no longer deductible as a miscellaneous expense on Schedule A. These include custodial and maintenance fees for investment and retirement accounts, fees for collecting dividends and interest, fees paid to investment advisers, the cost of investment media and services, and safe deposit box rental fees.

Investment interest is still deductible as interest on Schedule A, subject to the limitations of IRS form 4952.

## 9. Tax preparation fees

Expenses paid or incurred by an individual in connection with the determination, collection, or refund of any tax are no longer deductible on Schedule A, no matter which level of government is presiding over the taxation or even what the tax is levied on.  They are deductible on business returns.

## 10. Legal fees paid on an award, judgment or settlement

A legal award, judgment or settlement for personal physical injuries or physical sickness is tax exempt. The related legal fees are not deductible since that income is not taxable.

Legal fees related to an award, judgement or settlement from a claim of unlawful discrimination are deducted as an adjustment to income on the 1040 form, reducing adjusted gross income.

Legal fees related to all other taxable awards, judgements or settlements, which were previously allowable as miscellaneous expenses on Schedule A, are no longer deductible on the 1040. For example, if you are awarded a settlement of $100,000 and your attorney receives $30,000 of it, you must pay federal income tax on the entire $100,000 even though you're only receiving $70,000.

## Other items

The Affordable Care Act mandate is still in effect for 2018 but goes away in 2019.  Penalties will be accessed for not having health insurance.

With so many changes beginning in 2018 it’s so hard to know how everything will fall out.

If you have any questions, please call or text me at **816-519-2634**.    Or email me at klgcpa@gmail.com

*Your business is greatly appreciated.*

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