CRI CARR RIGGS & INGRAM
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TOP 10 CHANGES TO INDIVIDUAL TAX DEDUCTIONS IN 2018

The Tax Cuts and Jobs Act (TCJA) generated banner headlines about tax reductions for individuals and businesses. It's certainly true that many of the provisions in the new law reduce tax rates and increase deductions for some taxpayers. However, some deductions that taxpayers have counted on for years have changed in ways that could increase their taxable income.

These new deduction limitations are taking effect just as the IRS has instituted new rules for calculating the amount of taxes withheld from paychecks. It's critical that individuals start reviewing payments made and their estimated liability to make sure they aren't hit with a surprisingly large balance due when they file their 2018 return.

The following table summarizes some of the key changes to individual tax rules as a result of the TCJA.

ISSUE	2017 (OLD)	2018 (NEW)
New tax rates	Top rate of 39.6% applied to taxable income above $470,700 for joint filers, $418,400 for singles	Top rate of 37% applied to taxable income above $600,000 for joint filers, $500,000 for singles
Standard deduction and exemptions	Standard deduction of $12,700 for joint filers, $6,350 for singles A personal exemption of $4,050 per person	Standard deduction of $24,000 for joint filers, $12,000 for singles No personal exemptions
State and local tax	Itemized deductions allowed for: • Property taxes, and • The higher of state and local income or sales taxes	Deduction for all state and local taxes limited to $10,000 per return
Mortgage interest	Interest on up to $1 million of home acquisition debt is deductible on first or second residence Interest up to $100,000 of additional mortgage debt is deductible (if proceeds used to buy or improve a first or second residence)	Itemized deduction allowed for interest on up to $750,000 of mortgage debt on first or second residence No interest deduction on additional mortgage debt Mortgage debt grandfathered under pre-2018 rule if: • Loan taken out before 12/16/17, or • Under binding contract before 12/16/17 and purchase closed before 4/1/18

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Alimony	Deductible by payer spouse; recipient spouse must include it in income	Deductible by payer spouse and recipient spouse must include it in income, if divorce or separation instrument executed **on or before 12/31/18** Not deductible by payer spouse and not included in income, if instrument executed **after 12/31/18**
Casualty losses	Casualty losses relating to home, household items, and cars are deductible; losses must be reduced by salvage value and any insurance or other reimbursement	Deductible only if losses result from an event covered by a Presidential disaster declaration
Excess business losses	Flow-through business owners can deduct losses, subject to some restrictions (e.g., passive activity loss limitations, at-risk basis calculations)	Flow-through business losses subject to previous limitations with an added threshold: • Beginning in 2018, losses in excess of $500,000 for joint filers and $250,000 for singles are carried forward as net operating losses (NOLs)
Pass-through deduction	Net income from partnerships, S-corporations and sole proprietorships flow through to the individual shareholder's tax return	Subject to some limitations, taxpayers who own interests in certain pass-through entities may get a deduction for 20% of the business income that flows into their personal returns
Estate and gift tax exemption	Estate tax exemption of $5.49 million per individual Annual gift exclusion of $14,000	Estate tax exemption of $11.18 million per person Annual gift exclusion of $15,000
Health insurance penalty/ individual mandate	Individuals who fail to maintain coverage under a qualifying plan are subject to a tax penalty	Individuals who fail to maintain coverage under a qualifying plan are **still subject to a tax penalty in 2018**; in 2019, the "individual mandate" penalty will go away

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Bonus tax tip: Net investment income tax/Medicare surtax	Certain net investment income of individuals, estates, and trusts is subject to a 3.8% tax	Contrary to popular belief, this provision has not changed

Consult Your Tax Advisor

Use this summary of some of the key changes to individual income tax rules as a set of talking points in a meeting with your CRI tax advisor to discuss planning opportunities for the remainder of 2018 and beyond.