CORNER STONE
CPA GROUP LLP

INDIVIDUAL TAX REFORM UPDATE

August 2018

State and Local Tax Deduction Now Limited

In prior years, there was no limit on the amount of state and local taxes (such as Indiana or Michigan income tax, property taxes on your home, vehicle excise tax) that you could deduct on your tax return on Schedule A. *(However, the amount that you could deduct in total on Schedule A was limited for high-income taxpayers.)*

Starting in 2018, if you itemize, your personal state and local tax deduction is limited to $10,000. Please note, this has no effect on business property taxes. So if you pay property taxes on a rental house you own, you may still deduct those in full on your Schedule E, even if they exceed $10,000.

New 2018 Tax Brackets

These are the tax brackets in 2018. The 2018 rates are lower than 2017's tax rates which were 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%

Rate	Individuals	Married Filing Jointly
10%	Up to $9,525	Up to $19,050
12%	$9,526 to $38,700	$19,051 to $77,400
22%	38,701 to $82,500	$77,401 to $165,000
24%	$82,501 to $157,500	$165,001 to $315,000
32%	$157,501 to $200,000	$315,001 to $400,000
35%	$200,001 to $500,000	$400,001 to $600,000
37%	over $500,000	over $600,000

Obamacare Individual Penalties End After 2018.

Taxpayers will no longer be assessed fines for not having health insurance in years after 2018. Note that these fines will still be assessed on 2018 tax returns.

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Medical Expenses and Charitable Contributions After Tax Reform

Tax reform decreased the threshold for deducting medical expenses. Taxpayers can now deduct medical expenses that exceed 7.5% of their Adjusted Gross Income (AGI) regardless of their age. (Before tax reform, taxpayers under age 65 could only deduct medical expenses that exceeded 10% of their AGI.) This favorable change is only in effect in 2018. In 2019, the threshold returns to 10% of AGI.

Tax reform also eliminated the limitation on high-earning taxpayers' Schedule A itemized deductions. Now charitable contributions and medical expenses that were limited in previous years due to high AGI are no longer limited.

Also, in previous years, you could only deduct cash donations to charities that did not exceed 50% of your AGI. Tax reform increased this limitation so you can deduct contributions up to 60% of your AGI.

Mortgage Interest Deduction

The mortgage interest deduction is now limited to interest on the first $750,000 of debt to buy, build, or substantially improve your primary home or 2nd home. This only applies to mortgages finalized after December 15, 2017. Mortgages finalized before this date are grandfathered into the old rules (interest on up to $1 million of mortgage debt can still be deducted).

Eligible Home Equity Interest

Before tax reform, taxpayers could deduct home equity interest on their Schedule A. Starting in 2018, taxpayers can no longer deduct home equity interest *unless that money is used to buy or substantially improve the home* that secures the loan. So if the proceeds are used to book a vacation, buy a car, pay off credit debt, etc., you may no longer deduct that home equity interest.

Total Interest Limitation

The deductible interest allowed is limited to the interest paid on the first $750,000 of combined mortgage and eligible home equity debt. Before tax reform, this limitation was the first $1,000,000 of combined debt.

Kiddie Tax Rates Increased

Kiddie Tax is assessed on any unearned income (interest, dividends, etc.) made by a child under age 19 (age 24 if a full-time student) that exceeds $2,100. In previous years, this type of income was taxed at the parent's tax rate. After tax reform, Kiddie Tax is assessed at the higher estate tax rates, instead of the parent's tax rate.

We already issued a newsletter regarding how tax reform affects business owners in 2018. If you would like a copy of our business newsletter, please feel free to visit our website or call our office at 574-262-8886.

Alimony Deduction Eliminated for Divorces after 2018

Tax reform eliminated the deduction for paying alimony to your spouse for any divorces finalized after December 31, 2018. You can still deduct alimony paid on divorces finalized before this date, however, make sure your alimony qualifies for this deduction. For example, if the divorce decree does not specifically say the payments must cease upon death of the receiving spouse, then the alimony is not deductible.

On the flip side, for divorces finalized after December 31, 2018, you do not have to report alimony received as income on your tax return.

529 Education Plans May Now Be Used for K-12

Before tax reform, 529 Education Plans were only allowed to be used for college expenses. Starting in 2018, taxpayers can use money from 529 plans to pay for K-12th grade expenses as well. Many states (including Michigan) are still deciding if state-sponsored plans are allowed to be used for K-12 expenses. Indiana says they will allow this, but they issued special rules regarding K-12 expenses.

These 529 plans can be very beneficial because the earnings on the plans are not taxed by the Federal or State government when used for qualified education expenses. In addition, many states give nice tax credits or deductions for contributions to state-sponsored 529 plans. Please contact us to find out how much contributing to a 529 plan could benefit you in 2018.

Interested in Donating to a Charity?

Here are some suggestions to get the best bang for your buck.

1. Consider donating your RMD ("required minimum distribution") directly to a charity. Individuals age 70.5+ must take an RMD out of their IRAs each year in order to avoid a penalty. If you have your investment advisor send that RMD straight to a 501c3 organization, you get a nice tax savings. This distribution is not subject to normal charitable contribution deduction limits, and you get to completely exclude that RMD from taxable income on your tax return. *Note: You can donate more than the amount of your RMD, up to $100,000 each year.*

2. Donate Appreciated Stock. When you donate stock that has increased in value, you get a double-tax benefit. First of all, you get to take a contribution deduction for the Fair Market Value of the stock on the date you donate it. Second of all, you don't have to recognize any gain on the disposal of that stock.

Important Tax Figures

For Married Filing Joint (MFJ) and Single Taxpayers

		2018		2017	
Standard Deduction - MFJ	$	24,000	$	12,700	
Standard Deduction - Single	$	12,000	$	6,350	
Personal Exemption	$	0	$	4,050	*Per individual/dependent on return*
Child Tax Credit Maximum	$	2,000	$	1,000	*See a) below.*
Non-Child Dependent Tax Credit	$	500	$	0	*See b) below.*
IRA Contribution Limits	$	5,500	$	5,500	*(you can add $1,000 to this number if you are age 50+)*
HSA Contribution Limits					
Individual Max	$	3,450	$	3,400	*(add $1,000 if age 55+)*
Family Max	$	6,900	$	6,750	*(add $1,000 if age 55+)*
Annual Gift Tax Exclusion	$	15,000	$	14,000	
Lifetime Estate Tax Exclusion	$	11,180,000	$	5,000,000	*Per individual*
Tax Prep Fees Deduction	$	0		Unlimited	*(In 2017, unlimited of expenses exceeding 2% of AGI)*
Investment Fees Deduction	$	0		Unlimited	*(In 2017, unlimited of expenses exceeding 2% of AGI)*
Unreimb. Employee Expense Deduction	$	0		Unlimited	*See c) below.*

a) The income phase-out for the child tax credit also increased to $400,000 for MFJ filers and $200,000 for single or other filers.

b) Starting in 2018, you can now claim up to a $500 credit for each eligible non-child dependent on your tax return, subject to income phase-outs.

c) In 2017, W-2 employees could deduct any unreimbursed expenses they paid for their jobs (mileage, etc) that exceeded 2% of their income Starting in 2018, W-2 employees may no longer deduct these expenses.

Contact Us

Please feel free to call our office or email our staff with questions. We want to be a helpful resource for you.

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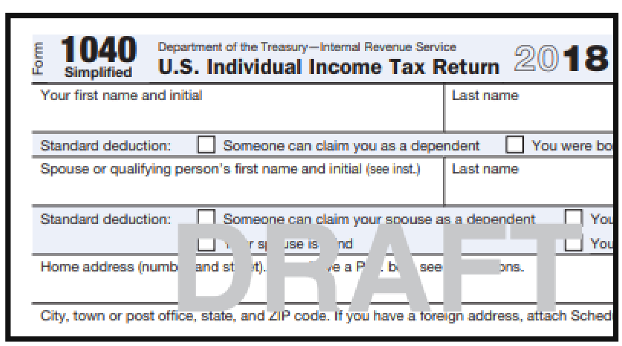
Draft of 2018 Postcard Form 1040

The IRS has issued a draft of what the 2018 Form 1040 may look like. Although they have made the new 1040 the size of a postcard, that is only because they have added 6 new schedules to attach to the form. You can check out the draft yourself at https://www.irs.gov/pub/irs-dft/f1040--dft.pdf


Form 1040 Simplified
Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 2018
Your first name and initial | Last name
Standard deduction: Someone can claim you as a dependent
Spouse or qualifying person's first name and initial (see inst.) | Last name
Standard deduction: Someone can claim your spouse as a dependent
DRAFT
City, town or post office, state, and ZIP code. If you have a foreign address, attach Sched