



July 2018 Newsletter

ANNOUNCEMENTS FROM OUR FIRM

Myths and Facts about Tax Law Changes

In case you missed our class on changes to tax law for individual returns, here's some of the information we thought our clients might need to know! Below we've presented some myths about tax reform's impact on individual tax returns and corrected them.

1. Myth: Everyone's taxes will be lower next year as a result of the changes.

Fact: Tax reform will change things. C corporation tax rates have been reduced, and the qualified business income deduction (discussed briefly at the end of this article) should lower business income tax for many businesses. For individuals, the changes are more complex. Some will generally reduce your tax burden and some will generally increase it. **Each individual situation is different.** We are now taking appointments for tax planning if you would like to get a more detailed look at how the changes will affect your situation. **Contact us** if you would like our assistance with planning this year.

2. Myth: I can file my taxes on a postcard now. My taxes will be very simple next year.

Fact: The 1040 itself may be getting smaller, actually! The IRS has released a draft 1040 that is a partial page and does kind of look like a postcard and allows taxpayers to report basic items such as wages, interest and dividends, Social Security benefits, and federal tax withholding. **However, this is a myth for most taxpayers.** The IRS has also released a draft of a Schedule 1, which will be needed to supplement to the new 1040. You will need Schedule 1 if you have any of the following additional items:

- Taxable state income tax refunds
- Taxable alimony or deductible alimony payments
- Business income from a Schedule C
- Capital gains or gain/loss from a sale of investment or business assets
- Rental income
- Pass-through income (from a partnership, S corporation, or trust)
- Farm income
- Unemployment income
- Educator expenses
- Miscellaneous income
- HSA deductions
- Self-employed health insurance
- Moving expenses for members of the armed forces
- IRA contributions, SEP, SIMPLE, or other contributions
- Student loan interest

So while your 1040 itself may be getting smaller, many taxpayers will actually have an additional tax form for 2018! We should also mention that these forms are in preliminary draft

status and may be changed (or combined) before the year ends, so while this information is the best we have now, we can't be certain there won't be additional changes before the end of the year.

3. Myth: No one will itemize deductions next year.

Fact: Many people will still benefit from itemizing deductions, so don't throw away all your receipts just yet! The following items will still qualify as itemized deductions for 2018:

- Medical and dental expenses exceeding 7.5% of your adjusted gross income
- Taxes paid, including state and local income taxes and real estate taxes up to \$10,000 (or \$5,000 for taxpayers married filing separately)
- Mortgage interest for mortgages up to a principal balance of \$750,000
- Charitable contributions, both cash and noncash

If the total of these items exceeds \$12,000 for single filers, \$18,000 for head of household filers, or \$24,000 for married filing jointly, taxpayers will still benefit from itemizing deductions. The standard deduction has almost doubled from last year, so some taxpayers who were itemizing will now benefit from claiming the standard deduction.

Please note that miscellaneous itemized deductions subject to the 2% floor have been repealed for next year. This means **you will no longer be able to deduct** expenses such as the following:

- Unreimbursed business expenses for W-2 employees
- Casualty losses except those from a federally declared disaster
- Home equity interest or mortgage interest that isn't acquisition debt or a refinance of acquisition debt
- Tax preparation fees not attributable to a business or rental
- Investment expenses
- Hobby losses
- Some legal fees

If you don't itemize, don't forget to save information on your out of pocket health insurance premiums and your charitable contributions to Idaho educational entities and youth and rehab facilities. These are still eligible for deductions and credits on your Idaho tax return!

4. Myth: The Affordable Care Act (Obamacare) has been repealed.

Fact: Actually, most elements of the Affordable Care Act remain in place. Businesses are still required to offer affordable health insurance coverage to their employees, and the health insurance exchanges will remain open. Advance premium tax credits will still be available to help offset the cost of insurance coverage purchased through exchanges. Taxpayers are still required to purchase minimum essential health insurance coverage, and there is no change to the rules requiring insurance providers to issue 1095's to report the coverage. The only change to the Affordable Care Act is that **the penalty for being uninsured has been reduced to zero beginning in 2019.** (Please note that the penalty will still apply to 2018 tax returns.) This will have a significant effect on taxpayers who were required to pay the penalty, but we do not yet know what will happen with the prices for health insurance plans on the exchanges or for the health insurance market in general.

Additionally, we wanted to inform you of some additional changes we haven't addressed above:

- **Federal tax brackets are going down.** The bracket structure has changed to reduce most taxpayers' top tax bracket by 2-3%. For example, most taxpayers in the 15% bracket for 2017 will be in the 12% bracket for 2018. You can find out more detail on the new tax brackets [here](#).
- **The top Idaho tax bracket has also been reduced** from 7.4% to 6.925%.
- **The personal exemption has been repealed.** For 2017, it allowed taxpayers to deduct \$4,050 for each individual claimed on the tax return. This amount will be zero for 2018.
- **The child tax credit is increasing** from \$1,000 to \$2,000 per child and the phaseout has been increased from \$75,000 to \$200,000 for single filers and from \$110,000 to \$400,000 for married filing jointly.
- **Idaho has added a child tax credit** of \$205 per qualifying child.
- **An "other dependent" credit** has been created in the amount of \$500 for dependents who do not count as a qualifying child for the child tax credit.
- **AMT exemptions are increased**, which should reduce the number of taxpayers affected by AMT next year. The exemption will increase from \$54,300 for single filers to \$70,300. For married filing jointly, the exemption will increase from \$84,300 to \$109,400.
- **Alimony** for divorce agreements finalized after 12/31/18 **will no longer be deductible.** Taxpayers who modify an older agreement can elect this treatment also, but both parties must agree.
- **529 plans can now be used for K-12 education** as well as for college savings! Up to \$10,000 per year for a child's K-12 education can be considered qualified tax-free distributions.
- **Moving expenses are no longer deductible** for taxpayers who are not members of the armed forces.
- **Net operating loss rules are less favorable.** Starting in 2018, net operating losses from business activity cannot be carried back and their usage will be limited to 80% of taxable income. However, they will carry forward indefinitely.

A new deduction for qualified business income will take effect in 2018. Due to space limitations here, we'll address this in another newsletter, so if you have a business or business income, watch for this issue in future newsletters! We also recommend that you [contact us](#) to get signed up for our free upcoming seminar on business tax changes, which will take place at 11 AM on September 18th.

Upcoming Seminars

Our **Summer Speaker Series** is halfway through and we've learned a lot already. If you have not signed up for these free classes yet and you are interested, please let us know so we can make sure you don't miss out!

Coming up are some more great topics:

Aug 21	Social Security	Ron Richards, Cambridge Investment
Sep 18	2018 Tax Reform: Business Focus	Robyn Mick, Silver Bridge CPAs
Oct 16	Wills and Trusts	Jon Bauer, Hawley Troxell

When: Third Tuesday of every month, May - October
11:00 - 12:00

Where: Silverstone Plaza
3405 E Overland Road
Meridian, ID 83642

Contact us today to reserve your seat!

Reserve your spot by signing up in our lobby or by [emailing us](#).

Office Hours

Our current office hours are 9:00 am to 5:00 pm, Monday-Thursday and **CLOSED on Fridays**.