THE COMPLETE GUIDE TO

NAVIGATING

THE TAX CHANGES OF 2018

IMPORTANT TAX PROVISIONS

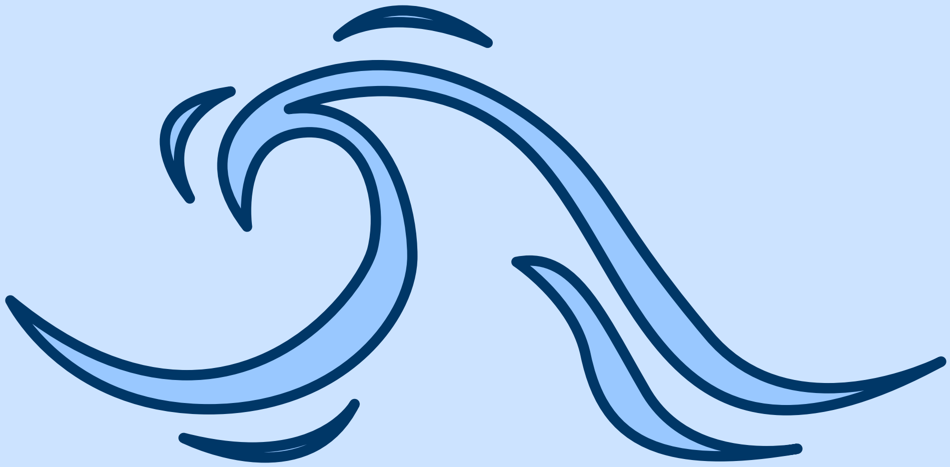
Just a reminder as you read this guide: You should consult with a qualified tax or financial professional before making short-term or long-term changes to your tax or financial strategy.

The legislation popularly known as the Tax Cuts & Jobs Act did not exactly “rewrite the book” of federal tax laws, but it almost seems that way. On January 1, a host of important, new tax provisions entered the Internal Revenue Code, and others were suddenly repealed.

Due to these reforms, federal tax law has changed to a degree unseen since the 1980s. This guide reviews the major adjustments to the Internal Revenue Code and more.

In This Guide

- Key tax changes for households
- Key tax changes for businesses
- Tax breaks gone in 2018
- Social Security & Medicare changes
- Cost of Living Adjustment (COLAs) & Phase-Out Range Adjustments
- Last, but not least, some other *interesting developments*



Key Tax Changes for Households

PART ONE

Whether you file singly, jointly, or as a head of household, you will want to keep these significant alterations to federal tax law in mind. These new tax provisions will remain in place through at least 2025.

1. LOWER INCOME TAX RATES & ADJUSTED BRACKETS

Thanks to the tax reforms, the seven income tax brackets of 10%, 15%, 25%, 28%, 33%, 35%, and 39.6% have been revised to 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

The federal government is now using the Chained Consumer Price Index to calculate inflation. That should reduce the size of the yearly adjustments to these brackets. In scrutinizing all this, you may notice something: the "marriage penalty" applying to combined incomes is nearly gone. That is, the thresholds for joint filers are simply double what they are for single filers for five of the seven brackets. Only married couples in the two uppermost brackets now face the "marriage penalty."1,2

Bracket	Single Filers	Married Filing Jointly or Qualifying Widower	Married Filing Separately
10%	$0 - $9,525	$0 - $19,050	$0 - $9,525
12%	$9,526 - $38,700	$19,051 - $77,400	$9,526 - $38,700
22%	$38,701 - $82,500	$77,401 - $165,000	$38,701 - $82,500
24%	$82,501 - $157,500	$165,001 - $315,000	$82,501 - $157,500
32%	$157,501 - $200,000	$315,001 - $400,000	$157,501 - $200,000
35%	$200,001 - $500,000	$400,001 - $600,000	$200,001 - $300,000
37%	$500,001 - and up	$600,001 and up	$300,001 and up

2. THE STANDARD DEDUCTION NEARLY DOUBLES.

While the personal exemption is gone (more about that later), the new law gives an enormous boost to the standard deduction in 2018 for all filers.

Incidentally, the additional standard deduction remains in place. Single filers who are blind, disabled, or aged 65 or older can claim an additional $1,600 deduction for 2018. Married joint filers can claim additional standard deductions of $1,300 each for a total additional standard deduction of $2,600 in 2018.3

- Single filer: $12,000 (instead of $6,500)
- Married couples filing separately: $12,000 (instead of $6,500)
- Head of household: $18,000 (instead of $9,350)
- Married couples filing jointly & surviving spouses: $24,000 (instead of $13,000)

3. AMT EXEMPTION AMOUNTS ARE MUCH LARGER.

The Alternative Minimum Tax was never intended to apply to the middle class – but because it went decades without inflation adjustments, it sometimes did. Thanks to the tax reforms, the AMT exemption amounts are now permanently subject to inflation indexing.

- Look at the change in AMT exemption amounts for 2018:
- Single filer or head of household: $70,300 (was $54,300 in 2017)
- Married couples filing separately: $54,700 (was $42,250 in 2017)
- Married couples filing jointly & surviving spouses: $109,400 (was $84,500 in 2017)

4. THE CHILD TAX CREDIT DOUBLES TO $2,000.

In compensation for the loss of the personal exemption, the Tax Cuts & Jobs Act boosted this credit, which is especially significant for large families. Up to $1,400 of the CTC is now refundable. Phase-out thresholds for the credit have moved north dramatically. They are now set at the following modified adjusted gross income (MAGI) levels:

- Single filer or head of household: $200,000 (was $75,000 in 2017)
- Married couples filing separately: $400,000 (was $110,000 in 2017)

Also, the Child & Dependent Care Tax Credit remains – parents still have a chance to deduct qualified child care expenses of up to $1,050 for one child under age 13 or $2,100 for two children under age 13. Dependent care Flexible Spending Accounts (FSAs) are still allowed as well: employees may save up to $5,000 of pre-tax dollars per year to help pay for qualified child care expenses.

Lastly, see the “Other Interesting Developments” section of this guide to learn about a significant non-financial change involving the Child Tax Credit.

5. YOU MAY BE ELIGIBLE TO CLAIM A NEW $500 NON-REFUNDABLE CREDIT FOR NON-CHILD DEPENDENTS.

This represents an effort to compensate for the loss of the personal exemption taxpayers could previously claim for non-child dependents. The MAGI phase-out thresholds applicable to the Child Tax Credit also apply to this "family credit." You are eligible to claim it if you have qualifying dependents in your household who do not meet the federal tax definition of a qualifying child.

6. THE YEARLY SALT DEDUCTION IS CAPPED AT $10,000.

This is arguably the most controversial tax law change of 2018 for individual taxpayers. If you live in a high-tax state (or alternately, a state that imposes no income tax), you may be grumbling about the new cap on the state and local tax (SALT) deduction. You can now only deduct up to $10,000 of some combination of a) state and local property taxes or (b) state and local income taxes or sales taxes annually. Taxes paid or accumulated as a consequence of trade activity or business activity are exempt from the $10,000 limit.

The SALT deduction cap is just $5,000 for married taxpayers who file their returns separately.

7. THE CEILING ON THE MORTGAGE INTEREST DEDUCTION FALLS TO $750,000.

As the median U.S. home price is well under $750,000, a relatively small percentage of homebuyers will be affected by this change. The new annual $750,000 limit applies for any taxpayer taking out a home loan between December 15, 2017 and December 31, 2025. For those who arranged their mortgages prior to this window of time, the $1 million ceiling remains in place. There is much more to note on this topic. When the Bipartisan Budget Act of 2018 became law on February 9, a pair of expired tax breaks were retroactively reinstated for the 2017 tax year: taxpayers still have an opportunity to deduct mortgage insurance premiums and may also exclude income from the discharge of debt on their principal residence, if eligible for such a deduction. Regarding mortgage insurance premiums, a taxpayer is fully eligible to claim that deduction when his or her adjusted gross income (AGI) is below $100,000 (a phase-out range occurs between $100,000-$110,000). The total of the mortgage insurance premiums is treated as additional deductible mortgage interest.

Homeowners should also be aware that the annual mortgage interest deduction is now just $375,000 for married taxpayers filing separately and that the deduction for interest paid on home equity debt has disappeared.

8. THE QUALIFIED MEDICAL EXPENSE DEDUCTION IMPROVES.

One of the few itemized deductions kept under the tax reforms also has a lower threshold this year. You can now deduct any out-of-pocket medical expenses exceeding 7.5% of your adjusted gross income (AGI). This applies to qualified medical expenses in 2017 and 2018. (The old deduction threshold was 10%.)The Alternative Minimum Tax was never intended to apply to the middle class – but because it went decades without inflation adjustments, it sometimes did. Thanks to the tax reforms, the AMT exemption amounts are now permanently subject to inflation indexing.

9. 529 PLAN ASSETS MAY NOW BE USED TO PAY FOR QUALIFIED ELEMENTARY EDUCATION EXPENSES.

Funds from 529 plans may not be used to pay homeschooling expenses for students who would otherwise attend classes in grades K-12.

Prior to 2018, 529 plans were college savings vehicles only; assets within them were earmarked for payment of qualified higher education expenses. Now, federal tax law says you can also distribute up to $10,000 a year from a 529 plan to pay for K-12 tuition, tutoring, and linked curriculum materials and that these qualified distributions will be tax free. Some state laws governing 529 plans do not allow this, however. As a result, 529 plan participants in select states are being told to wait before devoting any 529 plan assets to elementary education, as they risk wading into a gray area in terms of tax law by doing so.

10. NO ONE MAY RECHARACTERIZE A ROTH IRA CONVERSION.

Before this year, a traditional IRA owner who "went Roth" and subsequently changed his or her mind had a chance to undo the conversion within a certain time frame. This option is now disallowed.

11 THE FEDERAL ESTATE TAX EXEMPTION DOUBLES.

Very few households will pay any death taxes during 2018-25. This year, the estate tax threshold is $11.2 million for individuals and $22.4 million for married couples; these amounts will be indexed for inflation. The top death tax rate stays at 40%.

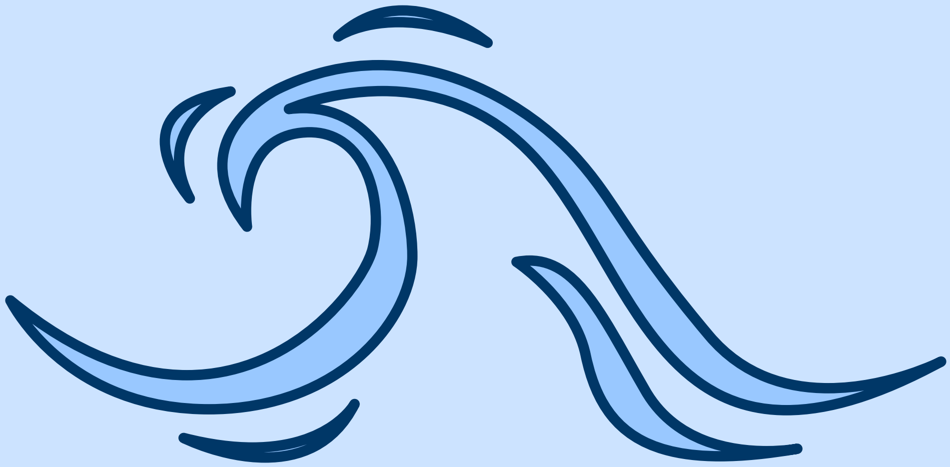
12. TWO CHANGES APPLY TO THE CHARITABLE DEDUCTION.

The charitable deduction was retained amid the tax reforms, but middle-class taxpayers may have far less incentive to donate to charity than they once did due to the greater standard deduction. A pair of adjustments have been made. One, taxpayers can now deduct charitable donations equal to 60% of their incomes; previously, the limit was 50%. Two, charitable contributions made to a university or college that give the donor the right to buy sports tickets are no longer deductible.

13. CERTAIN TYPES OF DISCHARGED STUDENT LOAN DEBT ARE NOW EXEMPT FROM INCOME TAX.

From 2018-25, no income tax will be applied to federal or private student loan debt discharged because of the borrower's death or disability.

In the past, if a borrower died or became severely disabled while carrying an outstanding education loan balance, the lender could release the borrower from liability and reduce the debt to zero. The only problem: the I.R.S. viewed the discharged debt as the equivalent of income. A $10,000 discharged student loan would have ordinary income tax levied on it. Now, that will not happen. The new law does not mandate private lenders to discharge debt on these occasions, however.



Key Tax Changes for Businesses

PART TWO

Some of these alterations to the Internal Revenue Code are permanent, unlike nearly all the changes affecting households.

1 .THE CORPORATE TAX RATE IS NOW A FLAT 21%.

Last year, the corporate tax rate was marginally structured and topped out at 35%. While corporations with taxable income of $75,000 or less looked at no more than a 25% marginal rate, more profitable corporations faced a rate of at least 34%. The new, permanent 21% flat rate brings U.S. corporate taxation in line with that in many other nations.

Only corporations with annual profits of less than $50,000 will see their taxes go up this year, as their rate will move north from 15% to 21%.

2. OUR CORPORATE TAX SYSTEM IS NOW TERRITORIAL.

The 2018 federal tax reforms instruct the I.R.S. to treat foreign profits more gently. Before the reforms, the U.S. corporate tax system was a worldwide system, meaning that American corporations paid American taxes on profits earned outside America; that amounted to a double tax on those profits, and those profits could be subjected to a 35% corporate tax rate in the process.Now repatriated earnings are being taxed differently to encourage U.S. companies to bring profits home rather than leave them overseas. A new, one-time repatriation rate of 15.5% on cash (and cash equivalents) and 8% on illiquid assets is in place, payable over a comfortable, 8-year term.

3. THE CORPORATE AMT HAS BEEN ELIMINATED.

The 2018 tax reforms permanently repealed this 20% supplemental tax.2

4. MANY PASS-THROUGH BUSINESSES CAN CLAIM A 20% DEDUCTION ON EARNINGS.

Some fine print accompanies this change. The basic benefit is that business owners whose firms are LLCs, partnerships, S corporations, or sole proprietorships can now deduct 20% of qualified business income, promoting reduced tax liability. (Trusts, estates, and cooperatives are also eligible for the 20% pass-through deduction.) Not every pass-through business entity will qualify for this tax break in full, though. Doctors, lawyers, consultants, and owners of other types of professional services businesses meeting the definition of a specified service business may make enough to enter the phase-out range for the deduction; it starts above $157,500 for single filers and above $315,000 for joint filers.

Above these business income thresholds, the deduction for a business other than a specified service business is capped at 50% of total wages paid or at 25% of total wages paid, plus 2.5% of the cost of tangible depreciable property, whichever amount is larger.

5. THE SECTION 179 DEDUCTION DOUBLES.

Business owners who want to deduct the whole cost of an asset during its first year of use will appreciate the new $1 million cap on the Section 179 deduction. In addition, the phaseout threshold rises by $500,000 this year to $2.5 million.

6. BONUS DEPRECIATION ALSO DOUBLES.

This is a near-term perk, one that, starting in 2027, will likely vanish for most pass-through firms and corporations. The first-year "bonus depreciation deduction" is now set at 100% with a 5-year limit, so a company can now write off 100% of qualified property costs through 2022 rather than through a longer period. Besides the jump from 50% to 100%, there is another eye-opener here: bonus depreciation now applies for used equipment as well as new equipment.

7. 1031 EXCHANGES ARE RESTRICTED TO REAL ESTATE.12. TWO CHANGES APPLY TO THE CHARITABLE

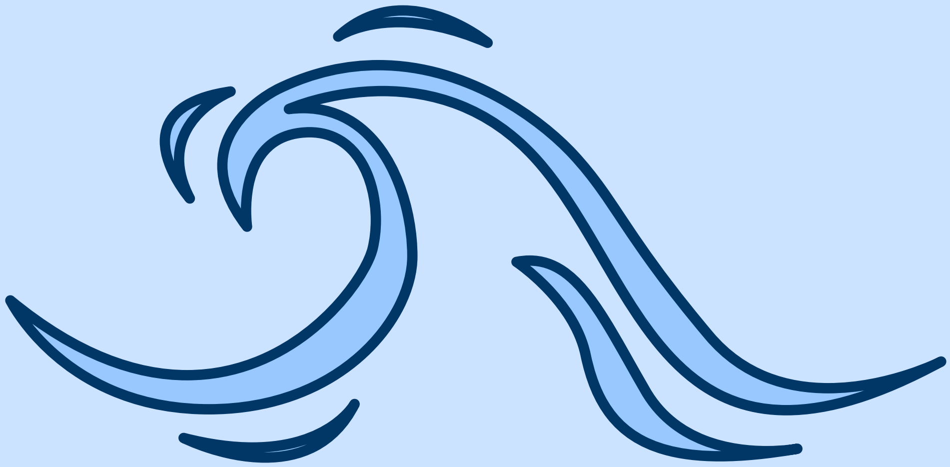
Before 2018, 1031 exchanges of capital equipment, patents, domain names, private income contracts, ships, planes, and other miscellaneous forms of personal property were permitted under the Internal Revenue Code. Now, only like-kind exchanges of real property pass muster.The charitable deduction was retained amid the tax reforms, but middle-class taxpayers may have far less incentive to donate to charity than they once did due to the greater standard deduction. A pair of adjustments have been made. One, taxpayers can now deduct charitable donations equal to 60% of their incomes; previously, the limit was 50%. Two, charitable contributions made to a university or college that give the donor the right to buy sports tickets are no longer deductible.

8 .DEDUCTIONS FOR BUSINESS INTEREST EXPENSES ARE NOW LIMITED TO 30% OF AGI FOR LARGE FIRMS.

This limit pertains to firms with over $25 million in gross receipts.

9. CARRYOVER AND DEDUCTION RULES APPLYING TO NET OPERATING LOSSES CHANGE.

Before 2018, most net operating losses incurred were eligible for a 2-year carryback and a 20-year carryforward, and both carryovers and carrybacks could offset as much as 100% of taxable income. While carrybacks are still permitted for two years, NOLs may now be carried forward indefinitely – but they can only offset up to 80% of income.



Tax Breaks Gone in 2018

PART THREE

Due to the reforms, some standbys of federal tax law are gone this year and for the foreseeable future. It is too early to tell if they will return in coming years.

1 PERSONAL EXEMPTIONS ARE ELIMINATED.

In the interest of simplification, the new tax reforms repeal the core personal exemption, plus the exemptions taxpayers could claim for relatives and dependent children. (The personal exemption phase-out rule naturally disappears as well.) The new $12,000 standard deduction financially surpasses the previously scheduled combination of the personal exemption and standard deduction for 2018 ($6,500 standard deduction + $4,150 personal exemption).

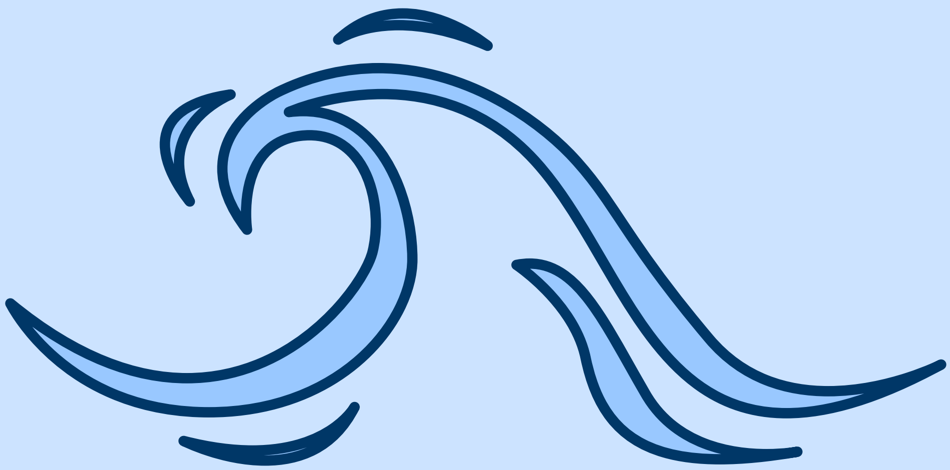
2 MANY ITEMIZED DEDUCTIONS ARE GONE.

When the Tax Cuts & Jobs Act headed to Congress in fall 2017, it appeared the list of repealed deductions would be very long. While some itemized deductions were retained, the list of lost deductions includes the following:

*Home equity loan interest deduction
*Moving expenses deduction
*Casualty and theft losses deduction (though it still applies this year in certain areas; see the "Other Interesting Developments" section)
*Unreimbursed employee expenses deduction
*Subsidized employee parking and transit deduction
*Tax preparation fees deduction
*Investment fees and expenses deduction
*IRA trustee fees (if paid separately)
*Convenience fees for debit and credit card use for federal tax payments
*Home office deduction
*Unreimbursed travel and mileage deduction
Under the conditions set by the reforms, many of these deductions could be absent through 2025.

Several expired deductions have been put back into place for the 2017 tax year, thanks to the Bipartisan Budget Act of 2018.

*The above-the-line deduction for qualified tuition and related expenses was retroactively reinstated for TY 2017. With this in place again, a taxpayer has the option to take a deduction for the amount of tuition and linked higher education expenses from adjusted gross income (AGI) on page 1 of Form 1040, if it provides a better tax break than claiming the Lifetime Learning Credit or the American Opportunity Tax Credit for the same expenses.
*As noted earlier, the deduction for mortgage insurance premiums is back.
*So is the chance to exclude the amount of debt forgiven on your principal residence from your taxable income.
*Three credits pertaining to energy efficiency have been restored for 2017. One, the 10% tax credit for energy-efficient home improvements returns, with its $500 ceiling now limited to a lifetime available credit. Two, the 10% residential energy property credit for the use of qualified fuel cell, small wind energy, fiberoptic solar lighting, and geothermal heat pump components returns – in fact, these credits will be offered through 2021. Three, the 10% tax credit for buying a two-wheeled, plug-in electric vehicle returns, with a limit of $2,500.
*If you are eligible to claim the Earned Income Tax Credit for 2017, you can either use your earned income from 2016 or 2017 to calculate the credit – whichever amount gives you the chance for a larger tax break.



Tax Breaks Gone in 2018

PART FOUR

Due to the reforms, some standbys of federal tax law are gone this year and for the foreseeable future. It is too early to tell if they will return in coming years.

1. SOCIAL SECURITY BENEFITS INCREASE 2.0%.

This increase in retirement income is essentially eaten up by higher Medicare Part B premiums for many seniors, however (see #3 below).

2 SOCIAL SECURITY WITHHOLDING THRESHOLDS ARE HIGHER.

Before and during the year you reach Full Retirement Age, Social Security withholds some of your benefits when your earned income surpasses certain thresholds.

If you have yet to reach your FRA, you may earn up to $17,040 in 2018 before having $1 in benefits withheld for each additional $2 in earned income above that level.

If you reach your FRA in 2017, you may earn as much as $45,360 before having $1 in benefits withheld for each additional $3 in earned income above that level.

3. MANY SENIORS ARE PAYING HIGHER MEDICARE PART B PREMIUMS THIS YEAR.

In 2017, Medicare's "hold harmless" statute held Part B premium costs down for about 70% of Medicare enrollees.

While around 30% of Medicare recipients paid about $134 per month for Part B coverage, others paid Part B premiums of just $107-109 as a result. They got this discount because the "hold harmless" rule says that on an annual basis, Part B premiums cannot increase more than Social Security's cost-of-living adjustment – and the 2017 COLA was tiny.

This year, about 42% of Medicare recipients will pay the standard Part B premium even though they are subject to the "hold harmless" provision, as the annual increase in their Social Security benefits will equal or surpass the increase in their Part B premiums. Around 28% of recipients will pay less than $134 per month for Part B, since the annual increase in their Social Security benefits will be less than the Part B premium increase.

4 MEDICARE'S PART A DEDUCTIBLE INCREASES.

In 2017, the Part A deductible (on hospital stays) is $24 higher than in 2017, rising to $1,340. The yearly Part B deductible remains at $183.

5 THERE ARE SOME PART D ADJUSTMENTS OF NOTE.

Medicare enrollees in Part D drug plans will pay only 35% of the cost of brand-name medications and 44% of the cost of generics while in the "donut hole" in 2018. Average monthly premiums for standalone Part D drug plans are expected to become $1.20 cheaper this year; the projected average is $33.50. The annual Part D plan deductible limit rises $5 this year to $405.16

6 NEW I.D. CARDS ARE BEING ISSUED TO MEDICARE RECIPIENTS.

"Why did Medicare put my Social Security Number on my Medicare I.D. card?"

If you have ever asked this question (and in this age of rampant identity theft, you may have asked it more than once), you will be glad to know an answer to this problem is just ahead. Medicare is mailing out new I.D. cards in April. These new cards will not have your SSN, but a new 11-character Medicare Beneficiary Identifier (MBI) code made up of numbers and upper-case letters.