TAX TIME 2018

What's New for Filing 2017 Taxes?

"Tax Cuts and Jobs Act" Brings Big Changes

The new tax law is full of complex changes. Some of the new rules impact 2017 (such as the lower 7.5% floor for health expenses) but most of the changes impact 2018 and beyond. Most taxpayers will experience a lower federal tax rate and will have a lower federal tax liability.
The standard deduction has been almost doubled but the personal exemption has been eliminated.
The new law increases the child tax credit to $2,000 per qualifying child from the current credit of $1,000 per qualifying child. The law also provides a $500 nonrefundable credit for qualifying dependents other than qualifying children. Under the new law, $1,400 of the child tax credit is refundable. The adjusted gross income (AGI) levels at which this credit is subject to phase-out increases from $110,000 to $400,000 for joint filers, and from $75,000 to $200,000 for single filers. Additionally, the earned income threshold for the refundable child tax credit is lowered from $3,000 under current law to $2,500. (*continued on page two*)

Long-Term Gains and Dividends

The maximum capital gains rate for higher-income people is 20%. These individuals can also face the 3.8% Medicare surtax on investment income, which can result in a maximum 23.8% Federal tax rate on long-term gains and dividends.

The Affordable Care Act Meets Your Tax Return

Your tax return must show whether you and your dependents were covered by minimum essential health coverage. If you purchased insurance through a Health Insurance Marketplace, you will need a Form 1095-A so that we can reconcile any advance premium credits with your actual credit which is based upon your actual income and household size. Form 1095-B or C from employers is helpful in determining for which months a taxpayer had coverage during the year. A single taxpayer earning up to $48,240 could qualify for a premium tax credit. Taxpayers with larger household sizes could earn more and still receive the credit. failure to maintain appropriate coverage may result in a shared responsibility payment of the higher of the total annual premium of the national average price of the bronze plan sold through the marketplace, 2.5% of your yearly "Household Income", or $695 per adult (maximum $2085 per family).

Maximizing De Minimus

Certain businesses can now expense items that were previously required to be depreciated over many years. "De minimus" safe harbor rules can apply to equipment items costing $2,500 or less (but up to $5,000 in some cases) or to rental improvements costing as much as $10,000.

More Than Just Taxes

In addition to preparing tax returns, Gandrud Financial Services offers general bookkeeping, bill-paying, payroll, budgeting, debt-reduction, financial planning, QuickBooks setup, and business consulting services.
We welcome the opportunity to discuss how changes in tax laws impact you and how to minimize your tax liability. Gregory Gandrud graduated with honors in 1982 from the U.S.C. School of Business and is licensed, registered, and bonded. He's been in Carpinteria for over thirty years.

Renter's Credit

California provides up to $120 credit for people earning less than $80,156 ($60 for singles earning less than $40,078).

California Earned Income Credit

A credit of as much as $2,775 is now available for wage earners with three children and income as high as $22,302. Smaller credits are available to wage earners without children.

Mileage Rate Decelerates

The standard business mileage rate fell to 53.5 cents/mile. The charitable rate stayed at 14 cents/mile. The medical and moving rates dropped to 17 cents/mile.

Checklist of Itemized Deductions

Please scan this partial list for overlooked deductions:

Medical & dental costs which, in total, exceed 7.5% (10% starting in 2018) of Adjusted Gross Income including:

- Prescription Medicines
- Insulin
- Doctor and dentist fees
- Nursing fees
- Hospital expenses
- Dentures
- Eyeglasses
- Medical insurance premiums
- Weight loss programs

State & local taxes(income OR sales)*
Real estate taxes*
Taxes paid for property held as investment*
Personal property taxes*
Home mortgage interest
Points paid on the purchase of residence
Estate tax on income of a decedent
Gambling losses to the extent of winnings
Investment interest
Charitable contributions
Impairment-related work expenses of a disabled person

*Starting in 2018 limited to $10k combined

Casualty & theft losses (starting in 2018 only in a federal disaster area)

None of the following will be allowed starting in 2018 for employees:

Employment-related education
Subscriptions to professional magazines
Investment advice and management fees
IRA or Keogh fees paid out of pocket
Cost of looking for a new job
Legal fees related to employment
Employee's malpractice insurance premiums
Medical exams required by employer
Tools and supplies used in employee's work
Hobby expenses to the extent of hobby income
Convenience fees for paying income taxes
Unrecovered investment in a retirement plan or annuity
Tax return preparation fees
Work clothes not suitable for normal wear
Uniforms
Dues to work-related professional societies
Union dues
Appraisal fees for casualty losses
Appraisal fees for charitable contributions

Looking Ahead

Mileage rates in 2018 will increase to 54.5 cents/mile for business and to 18 cents/mile for medical or moving. Charitable mileage will remain at 14 cents.

Starting with agreements entered into after 2018, alimony will no longer be deductible by the payer and it will not be includible in the income of the recipient.

Starting in 2019, the penalty for not maintaining "Minimum Essential Health Coverage" will be zero.

New Tax Law Impacts

(continued from page one)

The deduction for state and local taxes has been capped at $10,000 per year.
The deduction for mortgage interest is limited to the interest on $750,000 of acquisition indebtedness for debt incurred after December 15, 2017. The limit on deducting interest on acquisition indebtedness for debt incurred prior to December 15, 2017 remains at $1,000,000. The new law repeals the deduction related to interest incurred on home equity debt.
There is no longer any deduction for job-related moving expenses.
There is no longer any deduction for "Job Expenses and Certain Miscellaneous Deductions" on Schedule A - Itemized Deductions.
Casualty and theft losses will only be allowed for federal disaster areas.
The new law repeals the overall limitation on itemized deductions.
The Alternative Minimum Tax will apply to far fewer taxpayers.
The "Kiddie Tax" has been simplified effectively applying the ordinary and capital gains rates applicable to trusts and estates (rather than using the parents' rate) to the net unearned income of a child.
There is a new 20% deduction for certain individuals, trusts, and estates with respect to "domestic qualified business income" of pass-through entities and sole proprietorships.
Businesses can no longer deduct entertainment expenses. Business food and beverage deductions are limited to 50% even if served on premises.
Bonus depreciation is increased from 50% to 100%. The new law increases the depreciation limitations for passenger automobiles placed in service after 2017. If bonus depreciation is not claimed, allowable depreciation is limited to $10,000 in year one; $16,000 in year two; $9,600 in year three; and $5,760 in all subsequent years. Computers and peripheral equipment placed in service after 2017 would no longer be considered "listed property," and thus would not be required to be depreciated using the straight-line method if their business use falls below 50%.
There will no longer be a carry back deduction for Net Operating Losses in most situations.

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