

Tax Cuts and Jobs Act

2018 Personal Taxes

American Association of Individual Investors
Portland Chapter
November 10, 2018

TCJA Items starting in 2019

- **Individual health care mandate penalty tax eliminated**
- **Alimony in divorce decrees signed after January 1, 2019**
 - Not income to recipient
 - Not deductible by payer
- **Medical AGI threshold 10%**

Other Items in 2019

- **Social Security increase = 2.8%**
- **Medicare Part B basic premium increased to \$135.50**
 - **Upper income 2017 AGI limits**
 - **Single \$85,000**
 - **Married \$170,000**
 - **Premium \$189.60 to \$460.50**

Pension Plan Changes for 2019

- **401(k) / 403(b) plan contributions:**
 - **Maximum \$19,000**
 - **Catch-up \$6,000 for over age 50**
- **Traditional IRA and Roth IRA plan contributions:**
 - **Maximum \$6,000**
 - **Catch-up \$1,000 for over age 50**

Roth IRA Income Limits Up:

–Single:

- **MAGI \$122,000 to \$137,000**

–Married:

- **Joint MAGI \$193,000 to \$203,000**

–Conversions to a Roth have no income limit

Traditional IRA Income Limits:

–Single w/work retirement plan:

- **MAGI \$64,000 to \$74,000**

–Joint w/work retirement plan:

- **MAGI \$103,000 to \$112,000**

–Joint, spouse w/work retirement plan:

- **Joint MAGI \$193,000 to \$203,000**

TCJA Items - 2018

All of the following information refers to
Personal Taxes :

January 1, 2018

To

December 31, 2025

Unless otherwise noted

Itemized Deductions

- Medical same - 7.5% AGI threshold
- Mortgage interest incurred on or after December 15, 2017 limited to total of \$750,000 basis i.e. 1st + 2nd + HELOC
 - HELOC – Purchase, build or improve your main or second home
 - Pre December 15, 2017 Mortgage \$1,000,000 basis grandfathered

- **SALT deduction limited to total of \$10,000 – can be a mix of real estate and state/local income or sales taxes**
- **Charitable – Cash up to 60% AGI**
- **Miscellaneous deductions - Gone**
 - **Casualty losses allowed if suffered in a Presidentially designated area**
 - **Moving miles and expenses only allowed for active duty military**

What are the Pluses & Minuses?

- **Total itemized deductions limit gone**
- **Investment interest deduction still available with Form 4952**
- **All investment deductions subject to 2% AGI gone**
 - **Tax return preparation (TurboTax)**
 - **Estate tax planning, Investment fees**
 - **Investment newsletters, etc.**

- **Personal Exemption – Eliminated**
- **Child Tax Credit**
 - \$2,000 for dependents under age 17
 - \$1,400 refundable – phases out for:
 - Joint returns at \$400,000 AGI
 - All others at \$200,000 AGI
- **Non-refundable \$500 credit for dependents not qualifying as child**
 - Phases out same as Child Tax Credit

Standard Deduction

- **Single \$12,000**
- **Married \$24,000**
- **Married Separate \$12,000**
- **Head of Household \$18,000**
- **Blind and/or age 65 or older add:**
 - \$1,300 per person
 - \$1,600 if unmarried

2018 Tax Brackets

	Over	Single	Joint
\$	<u>- 0 -</u>	<u>10 %</u>	<u>10 %</u>
	9,525	12 %	
	<u>19,050</u>		<u>12 %</u>
	38,700	22 %	
	<u>77,400</u>		<u>22 %</u>
	82,500	24 %	
	<u>165,000</u>		<u>24 %</u>

	Over	Single	Joint
\$	<u>157,500</u>	<u>32 %</u>	
	<u>315,000</u>		<u>32 %</u>
	200,000	35 %	
	<u>400,000</u>		<u>35 %</u>
	500,000	37 %	
	<u>600,000</u>		<u>37 %</u>

**Inflation annual adjustments will use
chained consumer price index**

Alternative Minimum Tax

- **Exemption for AMT raised:**
 - Single, HH \$70,300
 - Married Joint \$109,400
 - Married Separate \$54,700
- **Exemption phase-outs raised:**
 - Single, HH, M/S \$500,000
 - Joint \$1,000,000

Long-Term Capital Gain Rates

- **LTCG rates by set income thresholds**
not taxable income bracket
- **Taxable income thresholds:**
 - 15% - Single \$38,600
 - Joint \$77,200
 - 20% - Single \$425,800
 - Joint \$479,000

Qualified Dividend Rate

- All filers – Tax rate applied same as long-term capital gains
- The “*Qualified Dividends and Capital Gain Tax Worksheet*” combines the net long-term capital gains and qualified dividends together to calculate the tax

Pass-Through Income

- Self-employed and owners of LLC’s, partnerships and S corporations can deduct 20% of qualified business income - allocable income less business deductions
- QBI does not include capital gain or loss, dividends, nonbusiness interest income, compensation paid to owner or partnership guaranteed payments

- **Investors with REIT shares or publicly traded partnerships can deduct 20% of their “qualified” REIT dividends and “qualified” PTP income**
- **Appears to not apply to mutual or open/closed end funds and ETFs**
- **1099 and K-1 have been redesigned to display the 199A amount**
- **Can be deducted w/standard deduction**
- **Does not reduce AGI**

- **Deduction is lesser of 20% of 199A or 20% of taxable income minus net capital gains**
- **REIT 199A dividends must be combined with 199A distributions from MLPs – frequently negative**
- **If combined amount is negative it is carried forward and used in future 199A calculations**

New Normal Ideas

- **Charitable transfer from IRA for those age 70 ½ to replace RMD**
 - **Must be from IRA Trustee directly to Charity**
- **Concentrate deductible expenses in alternating years**
 - **Mortgage payments**
 - **State and real estate taxes**

- **Donor Advised Fund Account**
 - **Control year donation/deduction is made**
 - **Control year charity receives donation**
 - **Eliminate capital gains**

**Net Investment Income Tax
and
Additional Medicare Tax on Earnings
follow**

**3.8 % Net Investment Income
Tax Individuals, Estates, Trusts**

- **Modified Adjusted Gross Income**
 - **AGI + Net Foreign Earned Income**
- **Single, HH \$200,000**
- **Married Joint \$250,000**
- **Married Separate \$125,000**
- **No provision for inflation adjustment**

Net Investment Income:

- **Taxable Interest, Dividends, Royalties**
- **Commercial Annuities, Rents**
- **Capital Gains from sale of:**
 - Securities, Mutual Funds, Investment RE
- **Capital Gain Distributions from Funds**
- **Passive Income from Partnerships, S Corps and Sale of Interest in either**

Not Net Investment Income:

- **Distributions from Qualified Annuities and Retirement Plans including:**
 - Traditional IRA, Roth IRA, 401(k), 403(b)
- **Tax-Exempt Interest, Social Security**
- **Life Insurance, Alimony, Nontaxable Veterans Benefits**
- **Business Income including Non-Passive Partnerships and S Corps**

Sale of Personal Residence

- Portion of gain from sale which is excluded is not subject to NIIT
 - Single \$250,000
 - Married Joint \$500,000
- Gain above the exclusion limit is subject to NIIT

Form 8960 - “*Net Investment Income Tax - Individuals, Estates, and Trusts*”

- NIIT is 3.8% of the lesser of:
 - Net Investment Income less:
 - Investment interest expense
 - State income tax
 - Miscellaneous investment expenses
 - Excess MAGI over the threshold

0.9 % Medicare Tax on Earnings

- **Earnings thresholds same as NIIT**
 - **Single, HH \$200,000**
 - **Married Joint \$250,000**
 - **Married Separate \$125,000**
- **Includes wages, net earnings from self employment and other employee compensation**

Form 8959 - “*Additional Medicare Tax*”

- **Calculates the tax on:**
 - **Medicare Wages**
 - **Self-Employment Income**
 - **Railroad Retirement Tax Act (RRTA) Compensation**
- **Calculates excess Medicare withholding on Medicare wages**