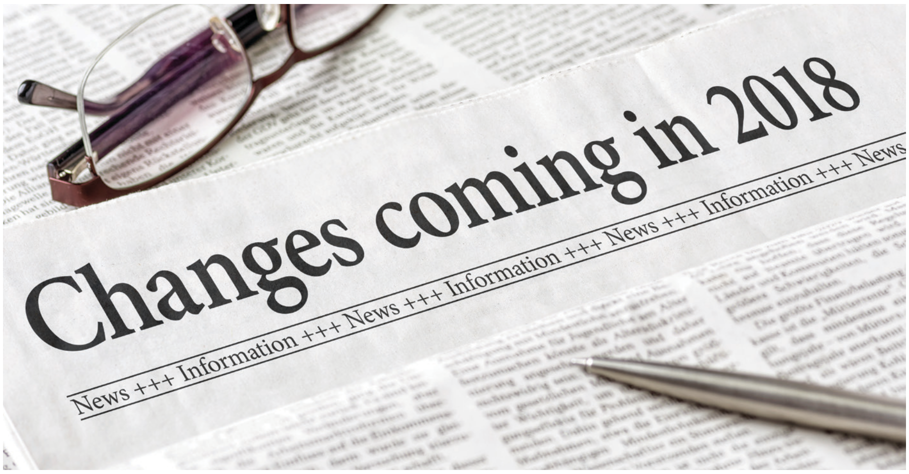
Render Unto Caesar… But Only What is Caesar's!

Highlights of the New Tax Law

By Robert Prior



"Render unto Caesar that which is Caesar's" is a commonly relied upon biblical principal interpreted by many to mean that citizens should pay their taxes. The teaching has an implied corollary: do not render unto Caesar anything that is not Caesar's. Determining what to render and what to keep, unfortunately, requires an understanding of tax deductions, exemptions and credits which are ever-changing. This article explores some of the highlights of those concepts in the recent tax code overhaul.

In 2017, you could claim a personal exemption of $4,050 for yourself plus a spouse on a joint return, and one exemption for each dependent claimed. So a family of four could claim $16,200 in personal exemptions. These exemptions applied regardless of whether the taxpayer itemized deductions. Beginning in 2018, there are no more personal exemptions allowed.

For many, the elimination of personal exemptions is more than offset by the increase in the standard deduction. The standard deduction is the amount every taxpayer gets to subtract from adjusted gross income before taxes are imposed. The 2018 standard deduction is $12,000 for individuals and $24,000 for those married filing jointly, double what they were in 2017. For those 65 and older or legally blind, the standard deduction is even more generous. Those taxpayers who take the standard deduction do not get to itemize deductions, however. This means fewer taxpayers will itemize going forward and may be less inclined to make deductible charitable contributions.

Long-term capital gains, which are profits from assets owned more than a year, will be taxed at the same rates as 2017. But instead of being determined by your tax bracket, rates will be determined by income limits. In 2018, taxpayers with taxable income under $38,600 ($77,200 for joint filers) will pay 0 percent in federal capital gains tax. The 20 percent rate will apply to taxpayers with incomes exceeding $425,800 ($479,000 for joint filers). Everyone in between will pay 15 percent.

The new law ends the ability of homeowners to deduct interest on home equity lines of credit used to purchase automobiles, pay for college tuition, or pay down credit card debt. Going forward, the interest on home equity loans will only be deductible for debt used to buy, build or substantially improve a main home or second home.

Parents and grandparents saving for a child's K-12 private school have gained a powerful new option with the tax law changes. K-12 private school expenses up to $10,000 per year can now be paid with funds from a state-sponsored 529 savings plan, which have always been reserved for college savings only.

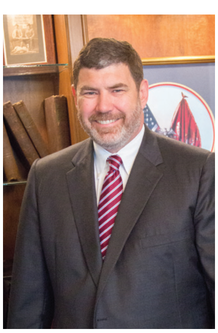
More taxpayers with big medical bills will be able to deduct them in 2018. The deduction threshold has been lowered from 10 percent to 7.5 percent of Adjusted Gross Income for unreimbursed medical expenses. This mean that those taxpayers who itemize can deduct their medical expenses to the extent those expenses exceed 7.5 percent of AGI. The threshold increases back to 10 percent in 2019.

Congress doubled the amount you can leave your heirs without paying any estate taxes. The 40 percent estate tax rate now applies only to estates in excess of $11.2 million ($22.4 million for married couples). But the change reverts back to $5 million at the end of 2025, so those with estates of $5 million or more should not ignore estate tax planning.

Alimony payments have always been deductible by the ex-spouse who paid them and taxable as income to the recipient. The new law reverses this for divorces after December 31, 2018. The ex-spouse who pays alimony will no longer be able to deduct and the recipient ex-spouse will no longer have to include the payments as taxable income.

Historically, state and local taxes have always been deductible in their entirety on your federal return. This included state income taxes and property taxes on real estate. Beginning in 2018, the maximum deductions allowed on state and local taxes will be $10,000. For taxpayers with large state income taxes and property taxes, this will have a big impact on their tax liability.

This article addresses some of the highlights of the new tax law. Consult your tax professional to be sure you are taking all deductions to which you are entitled.



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