THOUGHTS ON THE NEW TAX LAW: 2018

Just the Tip of the Iceberg

Your 2018 taxes are supposed to fit on a postcard, and gosh darn if the IRS didn't shrink the 1040 as promised … neglecting to mention that six new schedules were added! The "new tax law" reality is more complexity, not less. Form 1040, which used to take up 2 pages, now uses up to 8 sheets of paper!

The tax changes do not lead to "one size fits all" solutions. Most everyone will fall into a **lower tax bracket**, although that doesn't always translate into lower taxes. Your tax savings could be offset by limits on state income and real estate taxes. Other deductions have been eliminated altogether, including investment fees and employee business expenses.

If you make **charitable contributions**, they are still deductible under the old rules…but only if you itemize deductions. The increased standard deduction under the new tax law means that you may not be better off itemizing in 2018, even if you were in the past. If you are generous contributors, we can recommend some strategies to preserve the tax benefit for charitable donations.

Regarding children, the tax law giveth and the tax law taketh away. There is no longer a personal exemption for you and your dependents. However, the child tax credit has increased, and is allowed for more taxpayers with higher income. College students can give you a $500 tax credit, and younger children up to $2,000. There is some interplay with dependents and the college tuition tax credit, so we will run the scenarios to see what is best tax-wise for you and your loved ones.

If you have a **business, rental property or are self-employed**, you may reap great rewards from the new 20% "pass-through" deduction. It is not exaggerating to say that this is one of the most confusing and convoluted tax deductions ever invented. It is also potentially one of the biggest benefits of the new law…if you qualify!

Two people with the same income, but working in different businesses, may be treated very differently for this deduction. Suffice it to say that the usual targets -- doctors, lawyers, even accountants! – don't fare as well as engineers, landscapers and auto mechanics. There is a lot of gray area here, which can determine whether you are "in" or "out" based on your profession.

The IRS has also limited the **20% business deduction** if your income exceeds certain levels. We will be looking more closely at married couples who may not otherwise qualify for this deduction, to see if it makes sense to file separate returns this year. In the past it was seldom better to file separately, but under the new law it may work to your advantage.

Are you **paying or receiving alimony?** IRS rules did a "complete 180 turnaround" as of January 1, 2019. If your agreement was finalized in 2018 or earlier, then the old rules still apply: the payer deducts alimony, and the recipient pays the tax. However, for new agreements (and certain amendments of pre-2019 decrees), the opposite is true: no deduction for alimony payments and the recipient gets the alimony tax-free. Could this get any more confusing? It does if you live in Massachusetts, where the rules haven't changed for state tax purposes.

These issues are only the "tip of the iceberg" when it comes to the changes under the new law. We look forward to continuing the conversation with you during tax season, and beyond! -Kathleen S. Vaccaro, EA

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