Decoding the tax code

Can you guess which itemized deductions and credits made the cut?

Last December, accountants and taxpayers everywhere got a chance to unwrap the comprehensive and at times, overwhelming, new tax bill – the Tax Cuts and Jobs Act. A lot was packed inside, including changes to several itemized deductions as well as some tax credits, and almost all of the individual income tax changes expire at the end of 2025. We also got a higher standard deduction (for 2018, $12,000 for individuals; $18,000 for heads of household; and $24,000 for married couples filing jointly); however, the benefit of the increased standard deduction may, for some taxpayers, be partially or totally offset by the repeal of the personal exemption (see chart below). Take a look at what did and didn't make the cut for 2018, then ask your advisor and accountant if you would be able to itemize next year.

Personal exemptions

Say goodbye. In the past, taxpayers were generally allowed to reduce their taxable income by $4,050 per person, but no more.

Unreimbursed job costs

Say goodbye. At least until 2026, barring any changes. These job-related moving expenses and certain other job costs are no longer deductible unless you are an active duty military family.

State and local taxes (SALT)

Still deductible, but … capped at $10,000 for most individuals. In the past, it was generally unlimited.

Casualty and theft losses

Still deductible, but … only if the casualty loss was due to a federally declared disaster. The deduction for theft losses has been repealed.

Mortgage interest payments

Still deductible, but … only on loans up to $750,000 that were opened after Dec. 15, 2017. Prior loans are capped at $1 million.

Interest on home equity loans/lines of credit

Still deductible, but … the loan must be used to "buy, build or substantially improve" the home that secured the loan. Otherwise, no.

Medical expenses

Still deductible … once out-of-pocket medical expenses exceed 7.5% of your adjusted gross income (AGI). That threshold will increase to 10% in 2019 (except for taxpayers age 65+ for whom the 7.5% floor will remain intact), so it may make sense to move up any known deductible medical expenses to this year. Also, eliminates the tax penalty for not having health insurance (starting in 2019).

Credit for dependents

Still applies … and the Child Tax Credit has been doubled to $2,000. In addition, the new law allows for a $500 credit for other types of dependents.

Large charitable donations

Still deductible … and the limit for cash contributions has been raised to 60% of adjusted gross income. Remember that this only helps if all your itemized deductions exceed the new, higher standard deduction.

Alimony

Say goodbye. No longer deductible by the payer spouse or taxable to the payee spouse for agreements inked after 2018. You may want to include a provision that the divorce agreement must be renegotiated if the tax law changes again.

Sources: forbes.com; nytimes.com; turbotax.com; Raymond James research. Please note, changes in tax laws or regulations may occur at any time and could substantially impact your situation. While familiar with the tax provisions of the issues presented herein, Raymond James financial advisors are not qualified to render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

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