Presented by St. Clair CPA Solutions

Tax Reform Law: Topics of Special Interest for Individuals

February 2018

As you've heard by now, the Tax Cuts and Jobs Act (TCJA) includes a number of changes that will affect individual taxpayers in 2018 and beyond. Significant attention has been given to the reduced tax rates for most individuals and the new limit on deducting state and local taxes. But there is more to the story. Here's a summary of some of the lesser-known provisions in the new law.

Repeal of the ACA Penalty for Individuals

The Affordable Care Act (ACA) requires individuals to pay a penalty if they aren't covered by a health plan that provides at least minimum essential coverage. That penalty is also known as the "shared responsibility payment." Unless an exception applies, the penalty is imposed for any month that an individual doesn't have minimum essential coverage in effect.

The new tax law permanently repeals the ACA penalty for individuals for months beginning in 2019. But the penalty is still in force for all of 2018. The new tax law doesn't change the ACA mandate for employers, however.

Revamped "Kiddie Tax"

Under prior law (in effect before the TCJA), unearned income of children above an annual threshold was taxed at their parents' rates if those rates were higher. This so-called "kiddie tax" is imposed on individuals up to age 24 if they're full-time students. For 2017, the unearned income threshold was $2,100. Unearned income beneath the threshold was taxed at the children's rates. Earned income was also taxed at the children's rates.

For 2018 through 2025, the TCJA stipulates that a child's earned income is taxed at the standard rates for single taxpayers while unearned income is taxed using the rates and brackets that apply to trusts and estates. This change will make the kiddie tax much easier to calculate.

Restriction on Casualty and Theft Loss Deductions

For 2018 through 2025, the TCJA eliminates deductions for personal casualty and theft losses. However, it provides an exception for losses incurred in federally-declared disasters.

Another exception for losses, which aren't due to federally-declared disasters, allows deductions for personal casualty and theft losses if the taxpayer has personal casualty gains. That happens when insurance proceeds exceed the basis of the damaged, destroyed or stolen property. In this situation, personal casualty and theft losses are allowed up to the amount of the taxpayer's personal casualty gains.

Itemized Deduction Phase-Out Rule Eliminated

Under prior law, individuals with high levels of income were subject to a phase-out rule that could eliminate up to 80% of the most common itemized deductions, including the tax breaks for mortgage interest, property taxes and charitable donations.

For 2018 through 2025, the TCJA eliminates the itemized deduction phase-out rule. But some of the itemized deduction rules are changed (and limited) by other provisions in the new law. For example, the TCJA limits the deduction for state and local income and property taxes to a combined total of $10,000 ($5,000 for married people who file separately).

Changes to Charitable Deduction Rules

The TCJA also increases the charitable deduction limit for some gifts. Under prior law, the deduction for cash contributions to public charities and certain private foundations was limited to 50% of your adjusted gross income (AGI).

For 2018 and beyond, the new law increases the deduction limit to 60% of AGI. Deductions that are disallowed by the 60% rule can generally be carried forward for five years.

But not all changes to the charitable deduction rules are taxpayer friendly. The TCJA also eliminates deductions for donations to obtain seating rights at college athletic events, for 2018 and beyond.

Under prior law, you could treat 80% of such payments as a charitable donation if:

- The payment was to or for the benefit of a college, and
- The payment would be treated as a deductible charitable donation except for the fact that the payment entitled you to receive (directly or indirectly) the right to buy tickets to athletic events of the college.

New Law Eliminates Miscellaneous Itemized Deductions

The new tax law eliminates most itemized deductions, starting in 2018. Under prior law, the following deductions were deductible if they exceeded 2% of your adjusted gross income. For 2018 through 2025, this change eliminates deductions for a wide variety of expenses, such as:

- Tax-Related Expenses,
- Tax preparation expenses,
- Tax advice fees,
- Other fees and expenses incurred in connection with the determination, collection, or refund of any tax,
- Expenses Related to Taxable Investments
- Investment advisory fees and expenses,
- Clerical help and office rent for office used to manage investments,
- Expenses for home office used to manage investments,
- Depreciation of computer and electronics used to manage investments,
- Fees to collect interest and dividends,
- Your share of investment expenses passed through to you from partnership, limited liability company or S corporation,
- Safe deposit box rental fee for box used to store investment items and documents, and
- Other investment-related fees and expenses.
- Expenses Related to Production of Taxable Income
- Hobby expenses (limited to hobby income),
- IRA trustee/custodian fees if separately billed to you and paid by you as the account owner,
- Loss on liquidation of traditional IRAs or Roth IRAs,
- Bad debt loss for uncollectible loan made to employer to preserve your job, and
- Damages paid to former employer for breach of employment contract.
- Unreimbursed Employee Business Expenses
- Education expenses related to your work as an employee,
- Travel expenses related to your work as an employee,
- Passport fees for business trips,
- Professional society dues,
- Professional license fees,
- Subscriptions to professional journals and trade publications,
- Home office used regularly and exclusively in your work as an employee and for the convenience of your employer,

- Depreciation of a computer that your employer requires you to use,
- Tools and supplies used in your work as an employee,
- Union dues and expenses,
- Work clothes and uniforms if required for your work and not suitable for everyday use,
- Legal fees related to your work as an employee, and
  Job search expenses to seek new employment in your current profession or occupation.

Restrictions on Deducting Gambling-Related Expenses

For 2018 through 2025, the TCJA limits deductions for a year's out-of-pocket gambling-related expenses and gambling losses (combined) to that year's gambling winnings.

Under prior law, a professional gambler could deduct out-of-pocket gambling-related expenses as a business expense. Only deductions for actual gambling losses were limited to gambling winnings.

Sweeping Changes

The TCJA is the biggest piece of tax reform legislation that's been enacted since the landmark Tax Reform Act of 1986. It's expected to have a major impact on individual taxpayers in 2018. Want to learn more? Contact us to discuss your tax situation: it's never too soon to plan for this year and beyond.

St. Clair CPA Solutions
Accounting for Life Advising for Lifecycles™

28 South Centre Street, Merchantville, NJ 08109 • 856.482.5600
101 West Elm Street, Suite 500, Conshohocken, PA 19428 • 610.862.1998
www.cpasolutions.net