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Special Edition

Tax Reform Passed

This December US lawmakers passed the largest change to our tax system in more than 30 years. The final bill totaled over 450 pages. Here are a few items in the new bill that will impact individual taxpayers in 2018.

- **Reduces income tax brackets.** The bill retains seven brackets, but at reduced rates, with the highest tax bracket dropping to 37 percent from 39.6 percent.
- **Double standard deductions.** The standard deduction nearly doubles to $12,000 for single filers and $24,000 for married filing jointly. To help cover the cost, personal exemptions and most additional standard deductions are suspended.
- **Limits itemized deductions.** Many itemized deductions are no longer available, or are now limited. Here are some of the major examples:
    - **Caps state and local tax deductions.** State and local tax deductions are limited to $10,000 total for all property, income and sales taxes.
    - **Caps mortgage interest deductions.** For newly acquired homes, mortgage interest will be deductible only for mortgages of less than $750,000. Existing homeowners are unaffected by the new cap. The bill also suspends the deductibility of interest on equity debt.
    - **Limit on theft and casualty losses.** Now only available for federally declared disaster areas.
    - **No more 2 percent miscellaneous deductions.** Most miscellaneous deductions subject to the 2 percent of adjusted gross income threshold are now gone
- **Cuts some above-the-line deductions.** Moving expense deductions get eliminated except for active-duty military personnel, along with alimony deductions beginning in 2019.
- **Weakens the alternative minimum tax (AMT).** The bill retains the alternative minimum tax but changes the exemption to $109,400 for joint filers and the phaseout threshold to $1 million. The changes mean the AMT will affect far fewer people than before.
- **Bumps up child tax credit, adds family tax credit.** The child tax credit increases to $2,000 from $1,000, with $1,400 of it being refundable even if no tax is owed. The phaseout threshold increases sharply to $400,000 from $110,000 for joint filers, making it available to more taxpayers. Also, dependents ineligible for the child tax credit can qualify for a new $500-per-person family tax credit.
- **Expands use of 529 education savings plans.** Tax-deductible contributions to 529 education savings plans can now be used to pay tuition for students in K-12 private schools.
- **Doubles estate tax exemption.** Estate taxes will apply to fewer people, with the

exemption doubled to $11.2 million ($22.4 million for a married couple).
- **Reduces pass-through business taxes.** Most owners of pass-through entities such as S corporations, partnerships and sole proprietorships will see their income tax lowered with a new 20 percent income reduction calculation.
- **Eliminates** the deduction for personal exemptions.

What you should consider before 12/31/17.

Although we can not give specific tax advice in this broadly distributed newsletter, there are a few areas you should look at immediately to evaluate possible opportunities for yourself.

Consider paying year end State Tax Estimates by 12/31/17.

- Because the new tax laws will limit the deduction for state and local income taxes and real estate taxes in 2018 to $10,000 for a married couple, if you believe you have not paid or withheld enough state income taxes for 2017, you may want to pay the remaining amount you estimate will be due no later than December 31, 2017. You can send in estimated Colorado state income taxes using form 104-EP which can be found at https://www.colorado.gov/pacific/tax/individual-income-tax-instructions-and-forms.%20

- Most other state estimated income tax payment vouchers and instructions can be found online.

Consider paying real estate taxes by 12/31/2017.

- If you believe you will exceed the $10,000 total for real estate taxes and state and local income taxes paid in 2018, or if do not believe you will be itemizing in 2018 due to the increase in the standard deduction amounts ($24,000 for married filing joint and $12,000 for single) and the changes to the allowable itemized deductions, you may want to consider paying your personal real estate taxes by December 31, 2017. This can often be done by contacting the county assessor to determine the assessment amount and then contacting the county treasurer to pay that amount by December 31, 2017.

Tax Planning Recommended

We believe 2018 will be an important year to for you to consider undertaking formal and specific income tax planning. Over the next several weeks and months ahead, we will be evaluating and exploring tax strategies that were created under the new tax law. If you would like to engage us to provide these tax planning services for you to help you understand the impact of the new laws changes to you, we believe this might best be accomplished beginning in May 2018 or thereafter. That should allow sufficient time to evaluate your specific situation, consider available strategies and make recommendations for you to implement in 2018.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We appreciate your referrals.

Scott Jensen
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