

2018 Changes due to the Tax Cuts and Jobs Act (TCJA)

On December 22, 2017, the President of the United States signed into law major tax reform in the Tax Cuts and Jobs Act (TCJA). The TCJA made widespread changes to the Internal Revenue Code which will affect your 2018 tax return. Here are some of the more common changes that could affect your tax return.

Changes affecting most taxpayers

Personal exemption rate is reduced to zero. Prior to 2018, a personal exemption amount of over \$4,000 per person could be used to reduce taxable income. This personal exemption amount has been reduced to zero for 2018 through 2025.

Standard deduction increase. The standard deduction for most returns has been almost doubled over the amount that was allowed last year. The deduction for Single and Married Filing Separately returns is \$12,000, Head of Household returns is \$18,000, and Married Filing Jointly and Qualifying Widow(er) returns is \$24,000. The additional amounts for being over 65 or blind will still be allowed. Because of this change, this year many taxpayers will find that claiming the standard deduction instead of itemizing deductions will give them a lower tax.

SSN Required for Child Tax Credit (CTC). An SSN is now required to claim CTC. No credit will be allowed for any qualifying child unless the taxpayer provides that child's SSN or a Work Authorization Permit from Homeland Security. Prior to this year, CTC could be claimed for a child who had an ITIN.

Increase in CTC. The Child Tax Credit has been increased from \$1,000 to \$2,000 for 2018. The modified adjusted gross income threshold where the credit is phased out is \$400,000 for joint filers and \$200,000 for all others (up from \$230,000 and \$115,000, respectively), so many more taxpayers will be able to claim this credit. The maximum age for a child eligible for the credit remains 16 (at the end of the tax year).

New Credit for Other Dependents (ODC). Beginning in 2018, a new \$500 credit is available for dependents who do not qualify for the CTC. Most dependents listed on the tax return who do not qualify for CTC will now qualify for the smaller ODC, including parents who are claimed as dependents.

Changes to itemized deductions

Medical. For taxpayers of all ages, the deduction threshold for medical expenses is 7.5% of AGI.

State and local taxes (SALT). There is a cap on the deduction for state and local taxes paid. The deduction for state and local income taxes, real estate taxes, and personal property taxes combined is limited to \$10,000 per return, (\$5,000 for Married Filing Separately returns).

Limitation on deduction for home mortgage interest. You may be able to deduct mortgage interest only on the first \$750,000 (\$375,000 if married filing separately) of indebtedness. Higher limitations apply if you are deducting mortgage interest from indebtedness incurred on or before December 15, 2017.

No deduction for home equity loan interest. No matter when the indebtedness was incurred, you can no longer deduct the interest paid on a home equity loan unless loan proceeds were used to buy, build, or improve your home.