



January 16, 2018

Dear Client:

The President has signed the biggest tax reform law in over 30 years. When you file your 2018 tax returns — about a year from now — your tax return will look very different. And because most changes don't happen until then, we have some time to learn about the changes and plan for next year. Here are a few of the biggest changes that may affect you.

**Tax rate changes:** Both individual and corporate rates have changed. The maximum individual rate is reduced to 37% and the corporate rate is now a flat 21%. The rate change could benefit you — or in some cases cause your tax liability to go up.

**Standard deduction increases:** However, there are no more personal exemption deductions allowed. So this may help you — or hurt you.

**Increased Child Tax Credit and new Dependent Credit:** The credit is increased for each child to \$2,000 (up to \$1,400 of which is refundable for each child) and each non-child dependent can now receive a new credit of \$500. But you will have no exemption credit or deduction for yourself, your spouse, or your dependents.

The phaseout thresholds for these credits are drastically increased. Married taxpayers filing a joint return can claim the full credits if their adjusted gross income is \$400,000 or less (\$200,000 for all others). The credits are fully phased out for married taxpayers filing a joint return when their adjusted gross income reaches \$440,000 (\$240,000 for all others). This means that many more taxpayers will be able to claim these credits in 2018 and beyond.

**Disappearing deductions:** Beginning with the 2018 tax year, you will no longer be able to deduct:

- State income tax and property taxes above \$10,000 per year in total;
- Moving expenses (with an exception for certain military);
- Employee business expenses such as mileage, travel, entertainment, home office expenses, union dues, tax preparation fees, and investment fees, among others;
- Mortgage interest beyond interest on \$750,000 of acquisition debt, if you purchase a new home; and
- Mortgage interest paid on equity debt (this is no longer deductible for any taxpayers).

**Some new benefits for individuals:** These new benefits include:

- The medical expense AGI threshold will temporarily drop to 7.5% of AGI for 2017 and 2018;
- The AMT threshold is increased, so fewer middle-income taxpayers will be subject to AMT;
- The estate tax exclusion has nearly doubled, to \$10 million (adjusted for inflation); and
- The annual gift tax exclusion remains the same (\$14,000 for 2017 and \$15,000 for 2018), but the maximum rate on gifts is 35%.

**Small business benefit:** Beginning in 2018, there will be up to a 20% deduction from net business income for a sole proprietorship, LLC (excluding those taxed as a C corporation), partnership, S corporation, and rental activity. The rules are incredibly complex but there is a lot of planning that we can do to maximize this deduction for you.

We've only highlighted the most common changes here. As these changes are not simple, we suggest a separate appointment after April 17, 2018 to go over the changes that apply to your situation and how to maximize your tax benefit.

We look forward to working with you this year.

Sincerely,

Friedman & Perry, CPA's