

KATZ LOOK & ONORATO, P.C.

www.TheDenverLawyers.com

January/February 2019

2018 Tax Changes

by Klaralee R. Charlton

In December 2017, Congress passed the Tax Cuts and Jobs Act. Tax year 2018 is the first year impacted by these changes, so your return may look a little different this year. While every taxpayer's situation is unique, the following summarizes the changes that will most dramatically impact your tax return:

Tax Rate Changes

Tax rates for individuals, estates, and trusts have all been modified. For the most part, tax rates have all decreased slightly. You should not expect a dramatic difference in your return based on the modified tax rates. For estates and trusts, the top rate of 37% applies to income in excess of \$12,500; therefore, it is important to be sure we discuss any necessary distributions by March 6th if you still wish to allocate income to the beneficiaries instead of paying tax at this high rate.

Single Taxpayer	Married Filing Jointly	Trusts & Estates	Ordinary Income Tax Rates
\$0-\$9,525	\$0-\$19,050	\$0-\$2,550	10%
\$9,526-\$38,700	\$19,051-\$77,400		12%
\$38,701-\$82,500	\$77,401-\$165,000		22%
\$82,501-\$157,500	\$165,001-\$315,000	\$2,551-\$9,150	24%
\$157,501-\$200,000	\$315,001-\$400,000		32%
\$200,001-\$425,800	\$400,001-\$479,000	\$9,151-\$12,500	35%
\$425,801-\$500,000	\$479,001-\$600,000		35%
\$500,001+	\$600,001+	\$12,501+	37%

Capital Gains and Qualified Dividends retained their preferable tax rates. These rates range between 0% and 20% depending on a taxpayer's total income.

Single Taxpayer	Married Filing Jointly	Trusts & Estates	Capital Gains & Qualified Dividend Rates
\$0-\$38,600	\$0-\$77,200	\$0-\$2,600	0%
\$38,601-\$425,800	\$77,201-\$479,000	\$2,601-\$12,700	15%
\$425,801+	\$479,001+	\$12,701+	20%

Standard Deduction

The Standard Deduction for Individual taxpayers has nearly doubled for all filing statuses. However, Individual taxpayers no longer have a personal exemption. The swap of a higher standard deduction for no personal exemption results in little change for taxpayers who do not itemize and have no children. However, if you are single and typically have significant itemized your deductions, then the loss of the personal exemption could cost

Standard Deduction Cont.

you around \$1,000 in additional tax (\$2,000 for married filing jointly taxpayers). Every taxpayer's situation will be different, but please be aware of this change.

Trusts and estates have never had a standard deduction and are unaffected by this change. The personal exemption for trusts (\$100/\$300) and estates (\$600) was not changed by the recent legislation and remains the same in 2018.

State and Local Tax Deductions

State income and property taxes now have a collective cap of \$10,000 per taxpayer. If line 9 of your Form 1040 Schedule A or line 11 of your estate or trust Form 1041 was greater than \$10,000 last year, your 2018 tax return may be impacted by this change. Remember, the limit on property taxes does not apply to rental properties.

Miscellaneous Deductions

With the dramatic increase in the standard deduction, many taxpayers who typically itemize will claim the standard deduction instead. This is especially the case because Miscellaneous Itemized Deductions such as investment advisory fees, tax preparation fees, unreimbursed job expenses, and hobby costs are no longer deductible. The only miscellaneous expenses that can still be deducted are gambling losses (up to the amount of your winnings) and investment interest if you borrowed money to purchase an investment.

For trusts and estates, attorney, CPA, and fiduciary fees are still fully deductible. You may also deduct other administration expenses unique to the estate or trust. Other expenses such as investment advisory fees, HOA dues, safe deposit box fees, and other miscellaneous expenses will not be deductible.

If we are preparing your return, **please continue to provide us with a summary of ALL your expenses.** We will determine which expenses can still be deducted and which are no longer allowed. It is much better to provide us with MORE information than not enough.

Tax Fraud

If you are due a refund, be prepared to provide our office with additional identifying information such as your driver's license. Tax return fraud is rampant, so the IRS requests that we provide more taxpayer details, especially when a refund is due. You may also receive follow up correspondence from the IRS requesting you to provide them with additional information. If you receive one of these letters, feel free to call our office and we can walk you through the procedure for providing the necessary information.

Gifting Reminders

The annual gift tax exclusion for 2018 and 2019 is \$15,000 per person. If you gave any gifts such as cash, stock or real estate valued over \$15,000 you must file a gift tax return to report the gift. If your lifetime gifting has not exceeded \$11.18 million, then no gift tax will be due with your return. The return is simply an informational filing required to track your lifetime transfers. If you made these types of transfers, please let us know so we can help you file your required gift tax return.

QUESTIONS? We're happy to discuss how these tax changes will impact your unique filing situation. Call us at 303-832-1900 and ask for me.