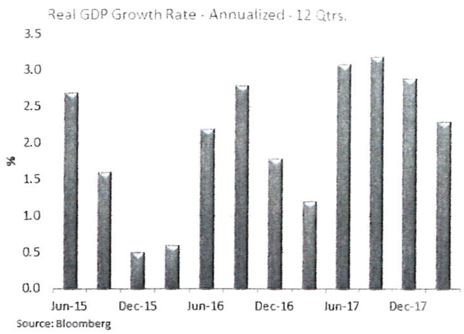
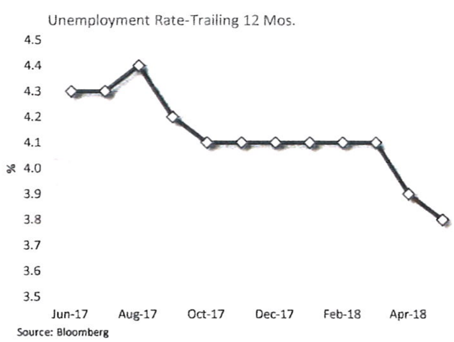
2018 Mid-Year Newsletter

Cascaida CPA PC   7-1-2018

US Economy:

US economy continues one of the longest expansion and the unemployment rate is 3.8%.





However, due to increasing interest rate and gas price, and effect of trade disputes and potential trade war, many economist express uncertainty in 2019 economy and possible recession in 2020.

IRS & other development:

- Under FAST law, IRS is required to use private collection agency partially. About one million delinquent taxpayers will be handled by private collection agency for collection. Some worry about protection of taxpayer information.
- Under FAST ACT, IRS can terminate passport for severely delinquent taxpayer. Delinquent tax over $50,000 can trigger.
- For many shoppers had a choice: buy from an in-state retailer and pay state sales taxes or buy from an e-retailor based outside the state pay no taxes. This was based on Quill case that e-retailor has no physical presence in relative state. US Supreme Court reverse the case recently. E-retailor with significant economic nexus now has to collect sales taxes.

OREGON NEWS;

- SB 1528: Oregon decided not accept the Federal deduction for qualified business income.
- HB4301: Oregon allowed using 7% individual tax rate instead of 9% highest rate for active path rough income from S corp. and partnership two years ago. Oregon extended this to sole proprietorship on May 2018.

2018 Federal Tax.

Individual: 2018 tax rates: based on taxable income

Rate	Single	MFJ	HOH
10%	<$9,525	<$19,050	<$13,600
12%	$9,526-$38,700	$19,051-$77,400	$13,601-$51,800
22%	$38,701-$82,500	$77,401-$165,000	$51,801-$82,500
24%	$82,501-$157,500	$165,001-$315,000	$82,501-$157,500
32%	$157,501-$200,000	$315,001-$400,000	$157,501-$200,000
35%	$200,001-$500,000	$400,001-$600,000	$200,001-$500,000
37%	Over $500,000	Over $600,000	Over $500,000

Increased standard deduction

The new standard deductions are:

- Heads of household: $18,000
- Married filing jointly: $24,000
- All other taxpayers: $12,000

Elimination of personal and dependent exemptions

Child and family tax credit

The TCJA increased the child credit for children under age 17 to $2,000 and also introduced a new $500 credit for a taxpayer's dependents who are not their qualifying children. Child's SSN is required.

Changes to itemized deductions

- The itemized deduction for state and local taxes is limited to a total of $10,000 ($5,000 for those using the filing status of married filing separately). For example, if you paid $15,000 in state income taxes and $6,000 in real estate taxes on your home ($21,000 in total), you would not be able to deduct the $11,000 that exceeds the deduction threshold.
- Mortgage interest on loans used to acquire a principal residence and a second home is only deductible on debt up to $750,000 (down from $1 million). Loans in existence on December 15, 2017 are grandfathered (balance up to $1 million still allowed). You can do refinancing the grandfathered loan, but if new loan amount exceeds previous loan balance before refinancing, no longer grandfathered.
- Interest on home equity indebtedness (such as a home equity line of credit) is no longer deductible unless the debt is really acquisition indebtedness (used for home improvement). Consider whether the indebtedness was used for business or investment purposes to determine if an interest deduction may be available in a different category.

- Cash donations to public charities are now deductible up to 60% of adjusted gross income.
- Miscellaneous itemized deductions, such as investment management fees, tax preparation fees, unreimbursed employee business expenses and safe deposit box rental fees are no longer deductible.
- Medical expenses are deductible by the amount the expenses exceed 7.5% of adjusted gross income for 2018 (limit changes to 10% starting in 2019).

New deduction for qualified business income

A new deduction, effective for tax years 2018 through 2025, was introduced in the TCJA that allows individuals a deduction of 20% of qualified business income from a partnership, S corporation or sole proprietorship, as well as 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership income.

	Non-Service	Service
Taxable income less than $315,000 (MFJ)	**20% deduction**	**20% deduction**
Taxable income greater than $315,000 but less than $415,000	Limitation phased-in	Deduction phased-out
Taxable income greater than $415,000	**W-2/Property limit applies**	**No deduction**

Service business include law, accounting, health, financial & brokerage, actuarial, athletics, consulting, invest mgmt., performing arts.

IRS will issue Regulation soon to answer some of the related questions.

Sec. 529 plans

The TCJA expanded the opportunities available for education tax planning by permitting $10,000 per year to be distributed from Sec. 529 plans to pay for private elementary and secondary tuition

Alimony

Tax reform has eliminated the deduction for alimony paid and the recognition of income for alimony received effective for divorce decrees executed after Dec. 31, 2018.

Estate and gift tax exemptions

Under the TCJA, the estate and gift tax exemption has doubled to $11.2 million per person effective as of Jan. 1, 2018. There is still guidance necessary to reconcile gifts made and estates that occurred prior to the increased exemption and the impact on portability. .

Individual shared responsibility payment

The TCJA repealed the individual shared responsibility payment for failure to have minimal essential healthcare coverage.