TFC FINANCIAL
The Financial Counselors

FINANCIAL PLANNING UPDATE
November 16, 2018

OUR VIEW

Important Planning Note: Taxpayers who have been consistently paying Alternative Minimum Tax (AMT) in past years, have not been realizing any tax benefit from SALT or Miscellaneous Itemized Deductions while paying AMT.

November 2018 Tax Update

The 2017 Tax Cuts and Jobs Act went into effect on January 1, 2018. While much has been written on the changes to our tax code for 2018 since the law was passed by Congress, we think it is worthwhile to review the primary ways in which the tax code changes impact individuals and families. There are additional aspects to the Tax Cuts and Jobs Act beyond what we will review here. Our focus is on the changes which will likely have the most immediate impact on TFC clients. Overall, the new law will impact everyone differently, with some seeing their taxes decrease and some seeing their taxes increase based on their income level, amount of still-allowed itemized deductions, and whether subject to the Alternative Minimum Tax.

We will also review changes to retirement plan contribution limits in 2019.

1. Changes to Itemized Deductions

The Federal deduction of state and local taxes (SALT) is now limited to $10,000 when itemizing deductions. Residents of states with higher state and real estate taxes who previously could deduct the full amount of these taxes paid to local taxing authorities will now be limited to a $10,000 Federal itemized deduction. In addition, many common Miscellaneous Itemized deductions such as investment and tax preparation expenses are no longer deductible as itemized deductions.

For many taxpayers, these changes will reduce their itemized deductions to below the new Standard deduction amounts ($24,000 for Married Filing Jointly / $12,000 for Single filers), prompting them to no longer itemize deductions and instead claim the Standard deduction amount.

Important Planning Note: Taxpayers who have been consistently paying Alternative Minimum Tax (AMT) in past years, have not been realizing any tax benefit from SALT or Miscellaneous Itemized Deductions while paying AMT. These itemized deductions have always been disallowed for those subject to the AMT.

What can you do?

First and most important, be aware of whether you will still be itemizing deductions or should expect to claim the Standard deduction. Your tax accountant or TFC advisor can assist with this determination.

If you expect to claim the Standard deduction, charitable contributions (which are itemized deductions) will no longer provide any tax benefit. As an example if you are married and filing jointly and your only itemized deductions are the $10,000 SALT deduction and charitable contributions, you will need to make $14,000 in charitable contributions just to equal your Standard deduction of $24,000. If your charitable contributions are $14,000 or less under this scenario there will be no tax benefit to the contributions. While there are many other extremely important reasons to support charitable and non-profit organizations, if the tax value of your

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contribution is a consideration, be aware of the new threshold for realizing a charitable contribution tax deduction.

If you are making significant annual charitable contributions, but not enough to exceed your Standard deduction, consider a donation of appreciated securities to a Charitable Donor-Advised Gift Fund (CDAG). Continuing our previous example, someone who annually makes $10,000 in annual charitable contributions can contribute four years of charitable contributions or $40,000 to a CDAG and realize the charitable tax deduction. The $40,000 can then be distributed to charitable organizations of your choice over the following years at your timing. The CDAG can be an excellent tool for realizing the tax benefit of charitable giving while still controlling the timing of your contributions to charities. Please speak with your TFC advisor for additional information. Donations of appreciated securities can be made directly to the charitable organization as well.

If you are age 70 ½, up to the full amount of your required minimum distribution (RMD) or $100,000 (maximum) can also be donated directly to a charitable organization, as a Qualified Charitable Distribution (QCD). This is an extremely effective technique which allows you to not realize income from the required IRA distribution and make a charitable contribution.

2. Changes to Tax Rates Necessitating Tax Withholding Adjustments

The 2017 Tax Cuts and Jobs Act reduced the income tax brackets for 2018 including the top marginal tax rate from 39.6% to 37%. For W-2 wage earners with taxes withheld, your paycheck should now reflect these new tax rates, as the IRS issued new tax withholding tables for employers earlier this year. You may need to take the additional step of updating the number of withholding allowances (done on IRS form W-4 submitted to your employer) applied to your W-2 wages, which will further adjust your tax withholding amount.

To determine the number of withholding allowances you should indicate on your W-4, you will need to consider not just your income but your spouse's income and any expected tax credits and deductions.

What can you do?

The IRS offers a helpful tax withholding calculator (https://www.irs.gov/individuals/irs-withholding-calculator) for guidance on the number of withholding allowances to claim on your W-4.

If you are uncertain about the need to make a change to your withholding allowances please consult with your tax accountant. Since most 2018 tax withholding has been paid at this point in the year, this is an adjustment you can consider making for 2019 (once your 2018 tax return has been finalized) if it is evident that a substantial 2018 refund or balance due warrants a change to your tax withholding level for 2019.

3. Tax Deductible Interest from Mortgages, Home Equity Loans, and Home Equity Lines of Credit

The 2017 Tax Cuts and Jobs Act made changes to the deductibility of interest from mortgages, home equity loans, and home equity lines of credit (HELOC). Beginning in 2018 the limits on the deductibility of interest on qualified residence loans were lowered. You may now only deduct interest on up to $750,000 in qualified loans, $375,000 in qualified loans if married and filing separate tax returns. Very importantly and a point of some confusion, qualified loans may include 1st mortgages, home equity loans, and HELOCs. All qualified loans, regardless of type, must be used either for a home purchase or improvements on the 1st or 2nd home which secures the loan. If the proceeds of the loan are not used for a purchase or improvement, the loan is not qualified and the interest is not tax deductible.

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Interest on qualified loans taken out prior to December 15, 2017, can still be deducted up to $1 million in loan value.

What can you do?

Keep detailed records of expenses for home improvements when borrowing to pay for the improvements (and in case your need to prove cost basis on a future sale). In the unlikely event you are audited, the expense records will substantiate your interest tax deduction.

4. Review Retirement Plan contributions for 2018 and 2019

The maximum 2018 employee 401(k)/403(b) contribution level is $18,500 with a $6,000 catch-up contribution for individuals who are age 50 or older during the tax year.

As is the case in any tax year, it is worthwhile to check your contributions to your retirement plans to ensure you are maximizing your allowable contributions. The maximum 2018 employee 401(k)/403(b) contribution level is $18,500 with a $6,000 catch-up contribution for individuals who are age 50 or older during the tax year. The 2018 maximum defined contribution plan contributions from all sources is $55,000 for those under age 50 and $61,000 for those age 50 and older.

These amounts will be changing in 2019 so it is a good idea to create a reminder to update your retirement plan contribution levels for the first payroll period of 2019.

Contribution Type	2018 Amount	2019 Amount	Change
Elective contribution for eligible workers	$18,500	$19,000	$500
Catch-up contributions for workers age 50 and over	$6,000	$6,000	none
Defined Contribution plan maximum from all sources for workers under age 50	$55,000	$56,000	$1,000
Defined Contribution plan maximum from all sources for workers age 50 and over	$61,000	$62,000	$1,000

As is always the case, please do not hesitate to contact your TFC advisor in collaboration with your tax professional with questions or a review of how these changes impact your personal situation.

Best Regards,

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