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A Guide To The New Rules On Tax Deductions In 2018

Uncle Sam giveth, and Uncle Sam taketh away. The new federal tax code, which went into effect in 2018 and affects the return you'll file in spring 2019, lowers taxes by expanding some deductions, but restricts or outright eliminates others.

Deductions lower your taxable income so you pay less tax. Here's how deducting items from your income were expanded, restricted, or eliminated.

Here's a guide to how the new rules expand some deductions, but restrict or eliminate others.

EXPANDED DEDUCTIONS

Standard deduction. The standard deduction is the amount you can subtract from your taxable income if you don't itemize — that is, individually deduct items like mortgage interest, charitable donations, and car loans. Nearly doubling the standard deduction to $24,000 for joint filers and $12,000 for singles pushes it up from $12,700 and $6,350, respectively. Fewer than half of taxpayers who itemized their 2017 return are expected to itemize their 2018 return. If you file using the standard deduction, preparing your return will be much simpler. If the standard deduction is less than the total of your itemized deductions, you'll still want to file by itemizing, subject to the rules below.

Medical expenses. If you itemize deductions, medical expense deductions will be more generous. For tax years 2017 and 2018, medical outlays in excess of 7.5% of your adjusted gross income are deductible. Starting in 2019, the threshold rises to the previous level of 10%. Congress is widely expected to consider extending the 7.5% threshold or making it permanent.

Alternative minimum tax. This very unpopular parallel tax system has been reined in and will zap fewer Americans in 2018. The AMT started in 1982 as an effort to reduce loopholes open to ultra-high-income earners, but its net gradually spread and it affected more individuals. In the 1990s, Congress hiked the AMT tax rate, stiffening its cost. Under the AMT, the standard deduction and deductions for state and local income taxes are lost. With the new law, your exemption — the amount you can subtract from your AMT liability — is much larger. Previously, $54,300 was exempt for a single-filer and $84,500 for a married couple filing jointly. Respectively, the exemptions increased by almost a third, to $70,300 and $109,400.

Child tax credit. This actually is not a deduction against your income. It's a credit on your tax bill. A credit reduces your tax bill dollar for dollar. The credit for children under age 17 was raised to $2,000 from $1,000.

RESTRICTED DEDUCTIONS

State and local taxes. Lawmakers placed a $10,000 cap per return on deductions for state and local taxes (SALT). Till now, the amount you could

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The New Law Tax Gives Roth Converters A Little Less Wiggle Room

Retirement savers, give thanks! The recently passed tax plan doesn't harm you — much. Congress, for instance, did not lower maximum contributions for tax-deferred plans, like traditional 401(k)s and individual retirement accounts. Nor did Congress tinker with moving your money from a traditional plan into a Roth, where you pay the taxes up front and appreciation grows tax-free and your withdrawals won't ever be taxed.

With one small exception. Until Congress changed the law right before the holidays, some people who did a Roth conversion could decide they wanted to un-do it, which the tax experts call a recharacterization. Not anymore.

Backing out of a Roth conversion was a convenient deal. Maybe at year's end, you discovered that other unanticipated deductions, income or market conditions made the conversion look like a boneheaded idea. Maybe it turned out you lacked the money you thought you'd have to pay the Roth tax. Maybe the stock mutual fund you converted had slid since you moved the fund into a Roth IRA. Why pay taxes on higher-cost stock when you can make the conversion disappear – and maybe later convert at the lower level?

Under the new law, for tax year 2018, you can't have that flexibility anymore. Once you make the switch, you are stuck with your choice. The good news: if you want to recharacterize a 2017 Roth conversion, you have until Oct. 15, 2018 to do it.

Giving More To Loved Ones – Tax-Free

While it may be better to give than to receive, as the adage contends, both givers and receivers should be happy with the new tax law. The annual amount you can give someone tax-free has been raised to $15,000, from $14,000 in 2017.

Exempting $15,000 annually from gift tax, over time, transfers a lot of wealth to those you care about during your lifetime, while avoiding the tender mercies of the tax man, and married couples can have double the fun.

Take the example of a husband and wife with three married children and six grandchildren. The husband can give $15,000 each to his married children and the same amount to their spouses, and also $15,000 to the half-dozen grandchildren — totaling $180,000 — and his wife can do the same for the same 12 beneficiaries. The grand total is $360,000 per year. No federal tax will be levied on these transfers of your wealth to family as well as friends.

In addition, you can give more than the annual exemption caps for college savings. The Tax Cuts and Jobs Act (TCJA) permits bunching five years of $15,000 annual gifts into one year, by plugging it into a 529 college savings plan for a child or grandchild. That's $75,000 in total. Assets in 529 savings plans grow tax-free, if used to pay qualified education expenses.

Gifts made during your lifetime reduce your exemption from tax on your estate. The TCJA more than doubled the estate tax exemption in 2018 from $5.5 million to $11.2 million for individuals, and from $11 million to $22.4 million for couples. All of these new levels will increase with inflation, though the formula annually adjusting inflation is less generous than before.

Lifetime gifts can be made directly or through trusts. With a trust, you place the gift of cash, securities, or other assets in an entity set up to make transfer of wealth after you die. The assets in the trust avoid probate court, and makes the transfer faster, less costly, less likely to be contested, and generally more sure-footed. Trusts can influence the values of your progeny by requiring the money you leave to be spent for religious, philosophical, or any variety of educational activities.

A trust also shields assets left to your heirs from lawsuits and business creditors. Should your grandchild get divorced, the trust money is shielded.

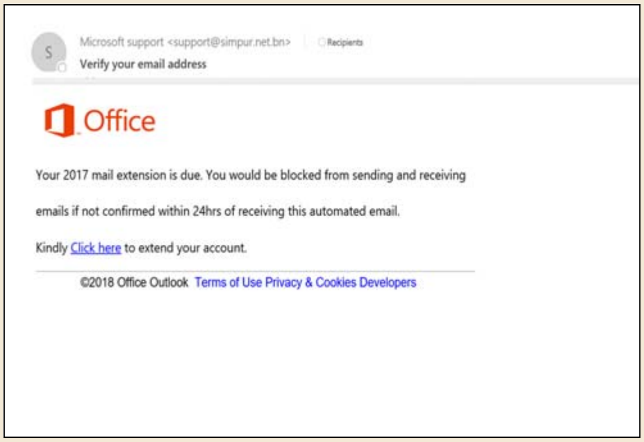
The friendlier tax treatment of transfers under the TCJA affects your estate plan and how your assets will be spent after you are gone, but it also may change your plan for gifting during your lifetime. Giving assets during your lifetime can be satisfying because you can witness your impact and influence on the future of your family. ●

Six Tips To Avoid Phishing Scams

"Fake news" has exacted a high cost to American culture and political discourse, but the internet fakery that costs you time and money is phishing, emails diabolically aimed to trick you into opening your personal data to crooks and miscreants.

Phishing is the practice of emailing people purporting to be a reputable company to fool people into revealing passwords, credit card numbers, contacts, emails, internet accounts, and your most personal digital data. It's rampant. Whether you're using a smartphone, tablet, or computer, here are some tips for protecting yourself:

Mistakes. Phishing emails often are generated by teens or crooks with weak skills in English punctuation, grammar, and spelling. The phishing email from Office uses an improper style in "24hrs" and the capitalization of the phrase, "Kindly Click here" should arouse suspicion. When you look at this email's bottom line, the copyright is "Office Outlook." The logo is off. The product name is Office 365 and there is no mention of Microsoft in the copyright notice. Does the sentence Terms of Use Privacy & Cookies Developers make sense? It's a hint that this is a fake.



Reply email address. In this

Key Components Of A Post-Divorce Estate Plan

Even the best-laid plans can go astray if you get divorced from a long-time spouse. Especially if you go your separate ways after raising children and acquiring property together, your estate plan may need to be revised, and pronto.

Frequently, the main objective in a divorce is to keep assets away from the ex-spouse while preserving wealth for the children. But this can become complicated when one or more of the children are still minors. Typically, your kids will be next in line to receive assets under your will.

What are the potential problems? Although a divorce generally erases the rights of an ex-spouse under a will, property going to minors will be held in a conservatorship until the age of majority in the state where you reside—usually, age 18. And, if your ex-spouse is the conservator, he or she may have more control over your assets than you would have liked. A court will supervise the conservator, but that person still has considerable discretion over what happens to property.

Other problems may arise if a child doesn't have the financial knowledge and expertise to manage assets after reaching the age of majority. A good chunk of your accumulated wealth could be squandered through spending sprees or bad investments.

But you don't have to stand pat and just let things play out. You can update your estate plan by creating or modifying one or more trusts. You also might eliminate or revise other trusts that had your ex-spouse playing a pivotal role. If the trust allows it, you might simply replace your former spouse with another person.

With a trust that you create, you get to name the person you want to be in charge as the trustee. This person will be responsible for managing investments in the trust, distributing funds as needed, and other related financial duties. The trustee you choose should be someone you trust—a family member, friend, or a financial advisor or institution.

A trust may have one principal purpose—for example, to limit the ability of children to withdraw funds—or several, and a main goal may be to minimize taxes under federal estate tax rules (as well as state inheritance taxes in some cases). These five types of trusts could be helpful as part of your estate plan—but may need to be modified if you get divorced.

1. Revocable living trusts: You can be the sole trustee during your lifetime and designate a successor upon incapacity or death. Thus, you'll retain a high level of control while you're alive. You may sell trust assets, amend the terms of the trust, or revoke it entirely. Generally, the trust becomes irrevocable when you die.

2. Life insurance trusts: Life insurance proceeds paid out from a policy that has you as the insured person are exempt from estate tax only if you don't possess any "incidents of ownership" (for example, the right to change beneficiaries) in the policy. To avoid dire tax results, you could set up an irrevocable life insurance trust (ILIT) and transfer complete ownership of the policy to the ILIT.

3. Bypass trusts: As the name implies, a bypass trust (also called a "credit shelter trust") is established so that funds can bypass your spouse's estate on their way to your children. Because the trust effectively can use the full estate tax exemption for each spouse, it enables a married couple to transfer millions of dollars without paying any federal estate tax.

4. Q-Tip trusts: With a qualified terminable interest property (Q-tip) trust, a surviving spouse must receive all the income, but not principal, and the children can receive the remainder upon the surviving spouse's death. This trust is often used to defer estate tax until the second death.

5. Spendthrift trusts: This type of trust is designed to protect against creditors (including a spouse you have divorced or are divorcing).

Finally, you may also use a trust for your own benefits, in lieu of a prenuptial agreement, to protect your own interests in the event you remarry. ●

phishing email, the reply address at the top left says "Microsoft support," but if you look closer, the reply email address is "support@simpur.net.bn" and that is not a Microsoft address. The "bn" suffix is the internet country code for Brunei, and that's another telltale sign of fraud. Clever phishing emails often fake reply addresses in other ways. The easiest way to verify a reply email address is to double click on it and look at its properties. If the email purports to be from Microsoft or Google, will hitting reply send an email to a Microsoft or Google email account? If not, it's fake.

Links. Don't click on links in a suspicious email without being deliberate. The link could be a malicious website. Right click on the link and check its properties and see if the link goes to the company.

Slow down. The grammar, misspelling, bad links, and other telltale signs are easily overlooked when you're in a rush, and that's perhaps the reason why people become ensnared by phishing emails.

Verify before you trust. Trust but verify works for some things but not with internet security. First verify and then you can trust.

Secure Software. Microsoft and Apple release updates to computer operating systems continually and those are essential to staying secure. Anti-virus and anti-malware programs are also essential and they need to be kept updated with the latest fixes. ●

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Tax Deductions In 2018

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deduct for SALT levies was unlimited. If you live in a place with high state and local taxes and home prices, you're hit hard. If you earn more than $100,000 in adjusted gross income and live in California, Connecticut, Maryland, New Jersey, New York or Oregon, you're very likely to see a material hike in your annual federal tax liability for at least the next decade.

Mortgage interest. You can continue to deduct this interest for first and second homes. The change: For mortgages dated after Dec. 14, 2017, only the interest on the first $750,000 of debt is deductible. Before that date, the $1 million ceiling still applies. In places where home prices and, thus, mortgages, are low, that is not as much of a concern. In high-price locales, it is.

Home equity interest. You no longer can deduct interest paid on home equity loans, unless it is used to improve the dwelling. Many people use such loans, which are secured by their homes, to pay for college tuition or new cars. If a home equity loan and the mortgage totals more than $750,000, the amount over that limit can't be deducted.

ELIMINATED DEDUCTIONS

Personal exemption. Exemptions, which lowered your income by $4,050 per person — usually family members — are gone. For some families with children over 17, who can't take advantage of the expanded tax credit, the elimination of the personal exemption will be a net loss.

Alimony. For divorce and separation agreements made after 2018, alimony payments will no longer be deductible. The deduction is helpful to a paying ex-spouse who is short on funds.

Casualty and theft losses. If your house burned down or a crook took your wallet, you could deduct the loss not covered by insurance to the extent it exceeded 10% of your income. Under the new law, only casualty losses suffered in a natural disaster declared by the president are deductible.

Job expenses. Continuing education, medical tests and licensing fees previously were write-offs. Not anymore.

Moving expenses. Before, you could deduct these if you moved to start a new job and it was a good distance (that varies by circumstances, but typically meant 50 miles away) from your old home. Now, that is gone, unless you are in the military.

Tax prep. Depending on the complexity of the return, these fees can amount to more than $500. Uncle Sam no longer will let you deduct them, though. ●