Anjali:	00:07	Hi everyone. Thanks for tuning into today's episode of Money Checkup where we take a deep dive into matters related to money, business and personal finance. I'm your host Anjali Jariwala, CPA and Certified Financial Planner.
Anjali:	00:28	Since tax time is just around the corner, I thought I would take an episode to go through the new 2018 tax return and highlight some of the changes at the new tax law made. So the focus today is going to be on the individual return, which is form 1040 so if anyone has started preparing their tax return and and taken a look, you'll see that the new return looks very different than it has in prior years. So one thing to note is that form 1040A and 1040EZ, which is essentially the shortened version of the form 1040 is no longer available. So everyone is going to have to use the 1040 there is no shortened version available.
Anjali:	01:11	Then you return also looks very different from the old return. As I mentioned, there is now a schedule 1 which I think most people will be filling out, which is where you now are going to report your additional income and adjustments to income of most of these items used to be on the original of 1040 itself. So let's start with looking at the tax brackets and discussing the various changes that have happened with that. So the tax code is a progressive income tax system and the new tax laws still retains the seven brackets, but there are some key differences. Now the first difference is at the top, tax rate has come down from 39.6% at 37% and the income threshold has increased from 470,000 for married filing joint jointly. Couple to that number now is 600,000 so what that means is that your income is not going to be subject to the 37% tax bracket until your income is 600,000 or higher as a married couple.
Anjali:	02:13	The new tax law still retained the 10% and 35% bracket, but all other tax brackets have come down as well. So just to highlight a few, the 15% bracket has gone down to 12% 25% has gone down to 22% 28% has gone down to 24% and 33% has gone down to 32% and there have been some adjustments to the income amounts as well for the various brackets. And what's interesting is that for a single filer, the brackets do have an interesting twist. So for example, I was kind of looking at the 250,000 of taxable income for a single filer and someone who is at 250000 their marginal tax rate, which is essentially what your next dollar of income is. Taxed at is now 35% under the new tax law. In the old tax law that would have been taxed at 33% there is some relief because the tax brackets have come down from the 35% all the income amounts below the 35% bracket are essentially text or lower tax bracket. But it'll be interesting to

see how exactly the numbers shake out for people who are in this income level.

Anjali:	03:29	The next thing you'll notice is that the personal exemption is now gone. So the personal exemption was a deduction you receive and it was about $4,000 times the number of people. So if you're married couple with two kids, it would be 4,000 times four and you and you would get that to offset your income. The personal exemption under the old tax law did have a phase out. So if you were a high income earner, you may have seen very little or no exemption at all available. But the new tax law completely repeals this exemption. So this may not be a big issue for some people, but for those who maybe have a large family with a lot of dependents, you may actually see an increase in your tax because of the loss of this exemption amount.
Anjali:	04:13	The moving expense deduction is another item that is now gone from the 2018 tax return unless you're a member of the Armed Forces. This one is interesting because just to give myself as an example, when we relocated from Chicago to California, my husband's company gave him essentially moving expense reimbursement and the moving expense reimbursement that we received was taxed upon so we. We paid tax on that income, but we were able to offset that because there was a movie and you expense deduction available in previous years. Now since the moving expense deduction is completely gone, it will be interesting to see if that's still going to be picked up as income from companies who are providing this benefit. If so, it's still a great benefit because you get a portion of your moving expenses reimbursed, but it won't be a pure reimbursement because you may be paying tax on it without getting the corresponding deduction to offset that tax cost.
Anjali:	05:12	So the next big changes is the standard and itemized deduction. So let's kind of walk through the standard deduction first. So the new tax return has increased the standard deduction amount. It's now 12,000 for an individual 24,000 for a family, and the old tax saw it, it was essentially half of those amounts. Those standard deduction amounts are inflated. So you'll see those go up by a little bit each year because of the increase in standard deduction that may benefit people who were taking the standard deduction anyways because you're going to see a higher amount for that. Unfortunately for the itemized deductions, there have been a lot of material changes. The big one that impacts for all of the people who live in high income tax states, such as where I live in California, state taxes are now capped at $10,000.

Anjali:	06:05	So what does that mean? Essentially, you know, old tax law you used to be able to take as an itemized deduction, any state income taxes you pay. So that includes income tax that you're paying on your W2 wages as well as property tax. So anyone who lives in a high property tax state as well knows that that was a sizable benefit. The new tax law, essentially capping both of those things at $10,000 that can be a material change for people who are high income earners and people who live in high income tax states.
Anjali:	06:37	The next big change is the mortgage interest deduction. So you do receive a benefit for owning a home and what you can deduct the mortgage interest that you're paying on your home. The old tax law would allow you to deduct up to 1 million of mortgage interest. Unfortunately, the new tax law has shaved that amount down to 750,000 the good news is, is that for anyone who already had a mortgage that grandfathered into the old $1 million rule, so this is essentially mortgages that were obtained prior to December, 1520 17.
Anjali:	07:12	The next big change on the itemized deduction is essentially the miscellaneous itemized deduction. So miscellaneous itemized deductions where essentially deductions that you could take, they were subject to a 2% cap, meaning that you could only take the deduction if it exceeded 2% of your adjusted gross income. So things that fell under miscellaneous itemized deductions included unreimbursed employee expenses. So if you're an employee and you pay for expenses for work that you're not reimbursed for, you're able to take it in this portion of your tax return investment fees that you pay to. An investment advisor used to be deductible under this portion as well as tax preparation fees. So the new tax law essentially got rid of this entire section. So for people who are used to taking those types of deductions, that will no longer be available.
Anjali:	08:01	And finally, the last item that changed is the medical expense deduction. So the way the medical expense deduction works with similar to the miscellaneous itemized deduction, there's a threshold that you needed to exceed in order to take the deduction. So in the old tax law, that threshold was 10% of your adjusted gross income. So if you incurred medical expenses that were in excess of 10% of your adjusted gross income, then you would get a deduction. Um, the new tax law brought that bracket down. So instead of it being 10%, it's only seven and a half percent, and that portion of the law was retroactive for 2017.

Anjali:	[08:36]()	So the last piece for the itemized deduction is that the old tax law used to have the Pease limitation, which essentially meant that your overall itemized deductions may have been limited if you were a high income earner. So the new tax law essentially repealed that limitation. So you won't see a cap on the itemized deductions in total like you may have seen in prior years. So one thing I'll note is that this is something that I've, I've started to see as I have been reviewing tax returns, is that due to this cap on state income tax, people who live in high income tax states who don't own a home and don't necessarily have large charitable donations, they may actually now fall under the standard deduction instead of the itemized deduction. And even though the standard deduction has come up from years past, it still may be lower than what they were taking as an itemized deduction before. So that piece is interesting for people who are in that bucket because you'll have to see what your taxes look at like and if you're actually paying less or more than you were in previous years.
Anjali:	[09:43]()	So the next change that happened with the new tax law and that you'll see on the new tax return for 2018 is the alternative minimum tax. So I'll call it the AMT going forward. For anyone who's not familiar with the AMT in the United States, the US tax code operates as a dual income taxing system. And usually you pay tax on the higher of your regular income tax or your AMT. So to give you a brief history lesson, because people who've been listening to my podcast, know that I'm a bit of a tax nerd. The AMT was originally put in place to make sure that people were paying at least a certain minimum amount of tax, even if they had a lot of itemized deductions. So for AMT purposes, a lot of the itemized deductions are actually added back. So it inflates the amount of income, which makes some times we'll make the AMT higher than regular income tax. The AMT historically had not been properly adjusted for inflation. So even though it originally was set out to be a tax for quote unquote high income earners, a lot of people who are kind of middle middleclass, we're starting to see themselves being subject to the AMT. So the new tax law greatly increases both the exemption in the threshold amounts for AMT. So a much smaller group of people should be subject to it than in years past.
Anjali:	[11:01]()	The AMT in my experience tends to show up for people who live in high income tax states just because state income tax is an add back item for AMT purposes. So many of those itemized deductions, like I mentioned, the state income tax property tax is another one. Those are all added back now with the reduction of the state income tax and that cap and also the reduction of of

mortgage interest for people who purchased a home after December 15,2017 I think a lot of those households wouldn't fall under the AMT anymore anyways because the add back items that are large for for that group may have been the state income tax and property tax and now that those items are capped, most people aren't going to see their AMT income be as high as it may have been in previous years. So although this provision seems like a benefit for people who are currently paying the AMT, I think the overall tax impact may be minimal because I think a lot of those households would not have fallen under the AMT anyways with the new tax law that went into effect. Even if the exemption and the threshold amount stayed the same.

Anjali:	12:04	The next big item that to change from prior years is the child tax credit. The child tax credit has increased to $2,000 per qualifying child and the child tax credit used to also have a phase out. Those phaseout amounts are now a lot higher, so you still get the full benefit if your income is 200,000 or so.
Anjali:	12:22	Then the next big change on the return is the qualified business income deduction. If anyone is interested to learn more about the details, I go through it in episode four with 1099 planning for independent contractors. So take a listen it where I do a deep dive into the QBI. The QBI is essentially a 20% deduction that you receive on your net qualified business income and you also get a 20% deduction on REIT dividends. The instructions for the 1040 provide a simplified worksheets. So if anyone is interested to see if they're going to receive the Qbi deduction, if they have a small business, that's the worksheet that you can look through to plug in your numbers and see if you get a tax benefit or not. Once again, just to reiterate, I went through it in detail in episode four but they QBI does have phase out and limits that are applied to it. Once your taxable income reaches a certain threshold. So for a single filer it's 157,500 and for a married filer, it is 315,000 so it's an interesting new piece of the tax law, but it does have its own complexities. So make sure you kind of read the instructions or rely on a CPA to help you navigate that piece of the return.
Anjali:	13:34	And then finally I'm going to wrap up with some things to note for 2019 and a few other key changes that have happened with the new tax law.
Anjali:	13:43	So one big change is that alimony is no longer, you're going to be deductible in 2019 this does not apply for any divorce decree that was issued prior to January 1st, 2019 so if a divorce occurs after that 1/12019 alimony is no longer deductible, which

means the person receiving the alimony no longer has to pick that up as income. The other big item that's going to change in 2019 is that the Affordable Care Act penalty is going to be terminated in 2019 so the ACA penalty, what that piece of the code was is that if you did not have a health insurance plan in place, then you are subject to a penalty, which actually can be fairly sizable. And you pay that on your tax return. So that penalty is actually going away starting in 2019.

Anjali: 14:34 And then one last piece is the new tax law did make some changes to 529 plan. So 529 plans are essentially plans that you can set up for education and they grow tax free and they come out tax free as long as they're used for qualified education expenses. So the, the new tax bill now allows for distributions from a 529 plan to be used for private elementary and secondary school expenses and there is a cap of $10,000 in distribution per student each year. And those distributions are allowed for any public, private and religious schools. So interesting planning opportunity there for people who are sending their kids to private school or plan to send their kids to private school. And live in a state in which they receive a state tax benefit for 529 plans, which is not all of the states.

Anjali: 15:22 So that wraps up the new 1040 tax return. If you noticed anything else or have any questions, feel free to visit our website and then drop us a comment on that. Thanks.

Anjali: 15:36 Thanks for tuning in today. If you're interested in making better financial decisions and are considering working with the professional, please visit us www.fitadvisors.com to schedule a free initial consultation.