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### **Individuals & Employees (Not Business Owners)**

Affordable Care Act (Health Insurance) individual mandate penalty is eliminated (starting in 2019, not 2018) by reducing the “individual shared responsibility to zero. “This actually saves the government money overall because it is assumed that fewer people will obtain subsidized coverage). Other Obamacare provisions remain – like the 3.8% net investment income tax and the 0.9% Medicare tax on employee wages above \$200,000 or \$250,000, depending on one’s filing status.

Personal Exemptions, which in 2017 reduce taxable income by \$4,050 each for taxpayers, spouses and other dependents are eliminated for 2018, etc.

Standard Deduction, from \$12,700 this year to \$24,000 next year for couples filing jointly. For individuals, the amount goes from \$5,350 to \$12,000. The additional standard deduction for the elderly and the blind is unchanged.

If you want to see if you can beat the standard deduction, be aware of the following changes on itemized deductions.

Medical Expenses can still be deducted. For 2017 and 2018, medical expenses exceeding 7.5% of income are deductible; but the percentage increases to 10% thereafter for everyone.

State and Local Taxes, reduced to new maximum of \$10,000 for a combination of non-business property and income taxes, or (for Texas) non-business property and sales taxes.

Mortgage Interest remains deductible for those who itemize, but for new mortgages on first and second homes, only the interest on the first \$750,000 borrowed is deductible. The interest on home equity loans will no longer be deductible.

(see over)

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Charitable Contributions remain deductible for those who itemize, and the current limitations of 50% of income is increased to 60%. But charitable deductions for payments made in exchange for college event seating rights are denied.

Gambling Losses can include expenses incurred in carrying out wagering transactions, even travel to and from a casino. But the total loss is still limited to gambling winnings. You must also itemize deductions to get the benefits.

Casualty Losses are no longer deductible unless covered by specific federal disaster declarations.

Miscellaneous Deductions (subject to a reduction of 2% of your income reduction) are no longer available for 2018.

Moving Expenses are only for an active duty military family (spouse and dependents, moving to a new permanent station).

Phase-out of itemized deductions is eliminated.

Child Tax Credit increased from \$1,000 to \$2,000 of which \$1,400 is refundable, meaning it would be paid to parents even if they do not owe income tax. They also added a \$500 credit for non-child dependents (age 17 and up). Value of these credits begins to decrease when family income exceeds \$400,000.

School Supplies. Teachers can still deduct supplies they buy for their classrooms, up to \$250. (But there is no more misc. deductions subject to a reduction of 2% of income).

College Student Loan Interest is still deductible. The deferred tuition provided to graduate students who teach, or the children of university employees will not be taxable.

(see over)

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College Student Loans will be Discharged upon Death or Permanent Disability

College Savings Accounts (Code Section 529)

- Qualified higher education expense will now include tuition at an elementary or secondary public, private, or religious schools up to \$10,000 per student. Home schooling, I believe, got dropped in the final version.
- ABLE Accounts under Code Section 529A provide individuals with disabilities and their families the ability to fund the savings account for “qualified” disability related expenses up to the annual gift tax exemption amount (\$15,000 for 2018).
- The new law allows a rollover from a 529 college savings account to an ABLE account, but the \$15,000 limit still applies. If the rollover amounts throw the funding in one year over the limit, the excess will be considered income to the distributee. There is an exception if the ABLE account beneficiary makes contributions over the \$15,000 amount. Those paying may also be eligible for the saver’s credit.

Alimony, starting in 2019, not 2018, will no longer be deductible by the payor for new or modified decrees in some circumstances. Payments accordingly will be excluded from the recipient’s income. Child support was already treated in this manner.

Estate Tax exemption is doubled so no estate worth less than nearly \$11,200,000 would be taxed.

The penalty for Retirement account withdrawals for qualified 2016 Disaster Distributions are eliminated.

(see over)

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Pass-Through Businesses income reported on owners' personal tax returns will get a 20% deduction on the net income (with some service business limitations). The bill contains "safeguards" to ensure wealthy taxpayers are not able to disguise personal income as business income to get the effectively lower tax rates.

Church and State. The ban on churches and other charities from endorsing political candidates does not change.

Recharacterizations of Roth Conversions has been eliminated. Recharacterization means undoing a previous conversion. I have helped a client do this when some stock was converted from a traditional IRA to a Roth IRA and after that, the stock went materially down in value.

Rental Property Purchases after 9/27/17:

Bonus depreciation will be 100% for new or used purchases of tangible personal property.

Due Diligence Requirements for Claiming Head of Household. Last year, if someone was able to claim the earned income credit, the child tax credit or the American Opportunity tax credit (regarding education), they know we had to obtain additional supporting documentation. Now if one is claiming the status of head of household, we have similar requirements. I, as a tax preparer, can be fined \$520 for each failure to meet the new requirements. So. Please be understanding when I ask for further documentation.

(see over)

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NOT Changed

- Private activity bonds used to build hospitals or low-income housing
- IRA and 401(k) accounts
- Adoption tax credit
- Earned income tax credit
- Affordable Care Act tax on investment income
- Education Deductions and Credits
- Credits for elderly or permanently disabled.

IMPORTANT DATES

- Changes to the individual tax code are effective January 1, 2018. They will not affect quarterly payments due in January 2018 or the tax return due in April 2018, since those cover income for 2017.
- Taxpayers could still experience new withholding rates for W-2's this winter because the IRS could have information out by February on how workers could adjust withholding from their paychecks.
- Most individual changes will expire at the end of 2025, meaning the old tax code rates and deductions would kick back in for 2026, unless Congress passes another law by then.

(see over)

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Kiddie Tax

- Earned income is taxed under the rates for single individuals
- Unearned income is taxed according to the rates for trusts and estates.

**ESTATE AND TRUST  
2018 New Law**

|       | Taxable Income |     | Capital Gain |
|-------|----------------|-----|--------------|
| Up to | \$ 2,550       | 10% | 0            |
| Up to | 9,150          | 24% | 15%          |
| Up to | 12,500         | 35% | 15%          |
| Over  | \$ 12,500      | 37% | 20%          |

Alternative Minimum Tax (AMT) repealed for corporations. Remains for individuals, but exemptions increased (see table below).

**Individual AMT Exemptions**

|                             | Pre-Act Law       | New Law   |
|-----------------------------|-------------------|-----------|
| Married Filing Jointly      | 85,200            | 109,400   |
| Other Unmarried Individuals | 55,400            | 70,300    |
| Income Range for Married    | 164,000 – 509,000 | 1,000,000 |
| Income Range for Unmarried  | 123,000 – 340,000 | 500,000   |

(see over)