

# Anchin Alert

**Anchin, Block & Anchin LLP**  
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## **Individual Income Tax Deductions under the 2017 Tax Reform Act**

The 2017 Tax Cuts and Jobs Act introduced some significant changes to the individual income tax structure. Income tax rate changes and income tax deduction changes will impact your overall tax liability. Here are some of the changes:

### **Personal Exemptions**

The Act repeals the deduction for personal exemptions for tax years beginning January 1, 2018 and ending before December 31, 2025. This deduction was more beneficial to lower and middle income taxpayers who were not subject to the alternative minimum tax.

### **Standard Deduction**

The Act increases the standard deduction as follows; \$24,000 for married taxpayers filing jointly and surviving spouses, \$18,000 for head of household and \$12,000 for single filers. It retains the increased exemption amount for the blind and elderly. This will also be effective for tax years beginning January 1, 2018 and ending before December 31, 2025.

### **Deductions from Gross Income**

#### *Alimony*

One of the more significant changes, the Act eliminates the current deduction for alimony payments. Payees receiving alimony should no longer have to include those amounts in income. This provision is effective for all divorce decrees and separation agreements executed after December 31, 2018 or modified after that date, only if the modification expressly provides that these amendments made by the Act apply to such modification. This change is permanent and does not have a sunset date.

This provision, along with the repeal of personal exemptions and other changes such as those made to 529 Savings Plans, will significantly affect future divorce settlements. It also has the potential to open up the debate for changes to be made to those agreements that have been settled before December 31, 2018, provided that the current agreement's verbiage allows for such changes. It still remains to be determined if the courts would consider any of the Act's changes sufficient to justify the re-examination of an already settled divorce agreement for changed circumstances.

#### *Moving Expenses*

The Act suspends the deduction for moving expenses in connection with a new job. It will continue to be available to active duty members of the Armed Forces who relocate under a military order. It also suspends the exclusion for qualified moving expense reimbursements from gross income. This provision is effective as of January 1, 2018 and sunsets December 31, 2025.

### Educator Expenses

Early proposals of the bill were set to eliminate the deduction for certain expenses of elementary and secondary school teachers, limited to \$250. This provision was not included in the finalized Act and remains a deduction for 2018 and future tax years.

## **Deductions from Adjusted Gross Income – Itemized Deductions**

### PEASE Limitation

While the Act includes modifications to specific itemized deductions it also repeals the overall 3% itemized deduction limitation, known as the Pease limitation, for taxpayers with adjusted gross income exceeding a specific threshold amount.

### Medical Expenses

Beginning in 2017, the medical expense deduction floor is reduced to 7.5% of adjusted gross income for all taxpayers and eliminates the alternative minimum tax preference.

### State and Local Taxes

Another significant change, especially impacting those in higher property tax and income tax states, the state and local tax deduction is now limited to \$10,000 (\$5,000 for taxpayers who are married filing separately). This applies for state and local income, sales, as well as real and personal property taxes. Foreign real property taxes are no longer deductible. It is unclear if the IRS will instill an ordering rule in regards to which taxes would be deducted first when the combined state income and real property taxes paid are in excess of \$10,000. This is particularly important in a situation where there is a state income tax refund for the purposes of determining its inclusion in the taxpayer's Federal taxable income.

### Mortgage Interest Deduction

The Act reduces the mortgage interest deduction to interest on \$750,000 (lowered from \$1,000,000) of acquisition indebtedness for debt incurred after December 15, 2017. Interest related to home equity indebtedness is now disallowed. Any indebtedness incurred to refinance the original acquisition indebtedness is treated "as incurred on the date that the original indebtedness was incurred." In other words, refinancing loans acquired prior December 15, 2017 are grandfathered in, but again, this only applies to acquisition indebtedness and not home equity loans. The refinanced debt cannot exceed the term or the original amount of the indebtedness. For tax years beginning after December 31, 2025, the limitation reverts back to \$1,000,000 regardless of when the debt was incurred.

### Investment Interest Expense

The investment interest expense deduction remains unchanged and is generally limited to the amount of a taxpayer's investment income. Since many investment expenses are no longer deductible (see below), they will no longer reduce investment income. This will allow for more investment interest expense to be deducted, since your investment income will no longer be reduced by these expenses.

### Charitable Contributions

The Act increases the adjusted gross income limitation on charitable contributions of cash from 50% to 60%. This is effective as of January 1, 2018 until December 31, 2025. Please note the 20% and 30% limitations remain the same. The Act also repeals the substantiation exception in relation to the contemporaneous written acknowledgement requirement for contributions of \$250 or more. All contributions now require contemporaneous written acknowledgments.

### Miscellaneous Itemized Deductions Subject to the 2% Floor

All miscellaneous itemized deductions that were subject to the 2% floor are no longer deductible. This includes, but is not limited to, investment advisory fees, tax preparation fees, accounting and legal fees and unreimbursed employee expenses. This is also effective as of January 1, 2018 until December 31, 2025.

### Casualty Losses

The Act now limits the itemized deduction allowable as a result of a personal casualty loss to losses only incurred as a result of federally-declared disasters. This change also applies to losses from other types of casualties and theft, such as losses related to fraudulent investment schemes or the theft of investment portfolios. As Bitcoin and other cryptocurrencies become more popular, taxpayers should keep in mind the concerns of cryptocurrency hacks. Possible losses incurred can no longer be included as a casualty loss under the Tax Reform Act. This provision applies to losses arising in tax years beginning after December 31, 2017, and before January 1, 2026.

What does this all mean for you? Planning and projections are even more important as tax reform changes the tax picture for everyone. With proper planning, taxpayers can update their tax strategy and work to minimize unfavorable consequences.

Your Anchin partners are evaluating the impact of these changes. In the meantime, feel free to reach out to your Anchin Relationship Partner.



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