Matthew B. Horowitz C.P.A.

Caring About Your Business... Is Our Business

www.horowitzcpa.com

Summer 2018 Vol. XXII. No. 1

Summer Notes

It's been a while since our last newsletter – this edition will address the recent tax law changes. Please be sure to check the front page of our website periodically as we will be posting current topics. For those of you who are new to our practice, we specialize in accounting, taxation and consulting with small-to-medium sized closely held businesses, and, during the season we prepare many individual income tax returns. Our style is always consultative, a throwback to the days where business was conducted face to face. In our practice, we maintain a desire and commitment to develop strong personal relationships with our clients in an effort to provide the best accounting and tax solutions consistent with our clients' unique goals, needs and attitudes. Our professionals (Ellen, Jeff, Mike & Robin), our most valuable asset(s), work diligently to earn the respect, privilege and business of each client relationship.

The Tax Cuts and Jobs Act: Key Changes for 2018

On December 22, 2017 President Trump signed into law the Tax Cuts and Jobs Act (TCJA) which made widespread changes to the Internal Revenue Code. The final legislation was a compromise to reconcile differences between a version passed by the House of Representatives and a different version passed by the Senate. Almost all of the provisions, including a lower corporate tax rate and lower individual income tax rates went into effect January 1, 2018.

Taxes – The new law imposes a new tax rate schedule with seven tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The top rate was reduced from 39.6% to 37% and applies to taxable income above $500,000 (for singles) and $600,000 (married). The Alternative Minimum Tax (or AMT) remains, though with a higher exemption than under the previous law.

Standard Deduction – The new law increases the standard deduction to $24,000 (married), $18,000 (heads of household), and $12,000 (for singles). Given these increases, many taxpayers will no longer be itemizing deductions.

Personal Exemptions – The new law suspends the deduction for personal exemptions.

Child Tax Credits – The new law increases the child tax credit for children under 17 to $2,000 from $1,000, and also increases the refundable portion of the credit. The adjusted gross income level at which the credits begin to be phased out has been increased to $200,000 (single), and $400,000 (joint).

State and Local Taxes – The itemized deduction for state and local income taxes and property taxes is now limited to a total of $10,000 starting in 2018.

Mortgage Interest – Under the new law, mortgage interest on loans used to acquire a principal residence and a second home is only deductible on debt up to $750,000 (down from $1 million), starting with loans taken out in 2018. There is no longer any deduction for interest on home equity loans, regardless of when the debt was incurred.

Charitable Contributions – The charitable mileage rate remains at 14 cents per mile.

Miscellaneous Itemized Deductions – There is no longer a deduction for miscellaneous itemized deductions which were formerly deductible to the extent they exceeded 2 percent of adjusted gross income. This category formerly included items such as tax preparation costs, investment management fees, union dues and employee expenses.

Medical Expenses – For 2018, medical expenses are deductible to the extent they exceed 7.5 percent of adjusted gross income. For 2019 and beyond, the AGI floor moves to 10 percent.

Itemized Deductions – The old 3% phase-out of itemized deductions is now suspended.

Alimony – For post-2018 divorce decrees and separation agreements, alimony will not be deductible by the paying spouse and will not be taxable to the receiving spouse.

Capital Gains Tax – While there are no changes to the capital gains tax rates, there are still planning opportunities. Those with taxable income less than $77,400 may still have their capital gains taxed at zero. A wonderful financial planning opportunity.

Estate and Gift Tax – Effective for 2018, the estate and gift tax exemption has been doubled to $11.2 million (singles) and $22.4 million (couples). The estate tax was not repealed.

Corporate Tax Rates – The corporate income tax rate will fall permanently from 35% to 21%. The bill also creates a 20 percent deduction for income of pass-through businesses that pay taxes through the individual tax code.

Mortgage Interest Deductions: A New Frontier

The TCJA made changes to the rules for deducting interest on your home mortgage and home equity loan. Under the old rules, one could deduct interest on up to a total of $1 million of mortgage debt, plus interest on up to $100,000 of home equity indebtedness. The TCJA, starting in 2018, will limit qualifying debt at $750,000. However, for acquisition debt incurred before Dec. 15, 2017, the higher pre-act limit of $1,000,000 applies. Refinancing of that debt is also allowed.

Starting in 2018, the interest paid on a home equity line of credit can only be deducted if the proceeds of the loan were used to acquire or improve the home. Accordingly, if you are considering incurring home equity debt in the future, you should take this factor into consideration. If you currently have an outstanding home equity loan, be prepared to lose the interest deduction for it, starting in 2018, if the proceeds were used for something other than the purchase or improvement of your home.

Borrowers should compare home equity loans with other loan options, including personal loans, to ensure they get the best rate possible if they can't deduct the interest paid. These changes are in effect for eight years, through 2025. In 2026, the original rules are scheduled to come back into effect.

HSA's: IRS Grants Relief

The IRS announced in April relief for taxpayers with family coverage under a High Deductible Health Plan who contribute to a Health Savings Account (HSA). For 2018, taxpayers may treat **$6,900** as the maximum deductible HSA contribution. A change in the inflation adjustment calculations had incorrectly reduced the maximum deductible to HSA's – Rev Proc 2018-27 restores the **$6,900** annual limitation that was originally published in 2017.

All-Star Stocks

During 2016 we wrote up our favorite stock from the payments sector, Visa. While we still hold Visa in all accounts, the stock has run from $78/share to $139/share. Our current favorite, is a play on "Shale USA", taking advantage of abundant resources in the ground. The stage is set for oil sector companies to deliver strong earnings and free cash flow.

We rate our first company, Occidental Petroleum (OXY, yield 3.67%) as the premier exploration & production company in the oil sector. With rich reserves located in the Permian Basin and pipeline takeaway capacity, this stock is poised to move up along with oil prices.

Our second company, Phillips 66 (PSX, yield 2.86%), is known as a large refiner of gasoline, diesel and distillates. Additionally the company owns pipelines and shipping terminals which facilitate the transportation of oil, gas and refined products.

Our last company, RPC (RES, yield 2.63%), provides oilfield equipment services in a bourgeoning industry. All three are fairly priced companies participating in a renaissance that we call "Shale USA".

Closing

We keep an allotment of sports tickets for friends and clients of the practice. Currently we have Orioles' baseball tickets, Terrapin hoops tickets and Wizards tickets available. Please feel free to call us if you'd like to go. Our next regular newsletter will arrive during the fourth quarter. We thank you for all of your many referrals – they are very much appreciated.