2018 TAX UPDATE

YEAR END NEWSLETTER

HUA GAO CPA LLC CPA

Bridge Pointe, Rt. 27
49 Bridge Street, Bldg A
Metuchen, NJ 08840
Tel: (732)632-9388 Fax: (732)632-9389
www.huagaocpa.com
Email: info@huagaocpa.com

Greetings to clients and friends! 2018 marks the first year of filing tax return using 500 plus pages of tax code changes passed into law in late 2017. Here are highlights of some big changes.

Taxable Income Brackets for 2018

The income brackets for each tax rate are:

TAX RATE	SINGLE	MARRIED JOINTLY	HEAD OF HOUSEHOLD
10%	$1-9,525	$1-19,050	$1-13,600
12%	$9,526-38,700	$19,051-77,400	$13,601-51,800
22%	$38,701-82,500	$77,401-165,000	$51,801-82,500
24%	$82,501-157,500	$165,001-315,000	$82,501-157,500
32%	$157,501-200,000	$315,001-400,000	$157,501-200,000
35%	$200,001-500,000	$400,001-600,000	$200,001-500,000
37%	Over $500,000	Over $600,000	Over $500,000

Will I Itemize This Year?

Many itemized deductions are either eliminated or reduced in 2018. In addition, standard deductions increase dramatically.

Eliminations and reductions
You potentially may no longer itemize if your tax return has:

- miscellaneous deductions, including unreimbursed business expenses.
- home equity interest for funds not used to build, buy or substantially improve your home.
- casualty losses
- state income, property and other taxes greater than $10,000 in total.

Likely to still itemize
Despite these changes, you may still itemize deductions. You probably will, if**:**

- you have high charitable contributions.
- you have a home mortgage.
- you are single and either own a home or live in a high-tax state.

Rest assured, a full review of your situation will help obtain the right filing solution for you.

The Six Big Changes

Tax rates are lower- While five of the seven tax rates drop by 2 to 4 percent, the income ranges of these new rates fluctuate quite a bit. Review where your income now fits using the tax rate chart above.

Standard Deductions- The standard deduction is effectively doubled to $12,000 for single filers and $24,000 for joint filers, while the additional standard deductions for the elderly and blind are retained.

Personal Exemptions- Personal exemptions, including exemptions available for qualified dependent children and relatives, are gone. No more personal exemptions. So your taxable income now is much higher than prior years.

Child Tax Credit- The popular child tax credit is now doubled from $1,000 per qualified child to $2,000, subject to a phase-out for high-income taxpayers. In addition, the new law creates a $500 nonrefundable credit for non-child dependents. Phase-out starts at $200,000 for single filers; $400,000 for joint filers.

State and Local Taxes- The bill limits annual itemized deductions for all nonbusiness state and local taxes deductions, including property taxes, to $10,000 ($5,000 for married taxpayer filing a separate return).

Mortgage Interest- The new law limits the mortgage interest deduction to interest paid on the first $750,000 of acquisition debt, down from $1 million in the case of tax years beginning after December 15, 2017, and beginning before January 1, 2026. For acquisition indebtedness incurred before December 15, 2017, the bill allows current homeowners to keep the current limitation of $1 million. The new law also eliminates deductions for interest paid on home equity debt.

Do I Have to Have Health Insurance?

Federal-You need to have health insurance under the Affordable Care Act until Dec. 31, 2018. From Jan 1, 2019, it will no longer be mandate under Federal rule.

However if you are NJ resident, you still need to have health insurance.

New Jersey Individual Mandate - The NJ Health Insurance Market Preservation Act enacts a state-level individual health insurance mandate to be effective Jan 1, 2019. Under the law, all New Jersey residents will be obligated to maintain some level of health insurance or pay a penalty. In terms of the amount of the penalty, some exceptions etc., NJ's individual mandate closely mirrors the federal Affordable Care Act. $695 per adult ($347.50 per child) or 2.5 percent of a taxpayer's income, whichever is greater (as adjusted).

So to summarize, if you are NJ resident, you still need to have health insurance to avoid penalty.

Retirement Savings Limit

IRA contribution limits will be increased in 2019, which last increased in 2013.

Types	2018	2019
IRA	$5,500	$6,000
(+$1,000 50 years old or over)		
401 (K)	$18,500	$19,000
(+$6,000 50 years old or over)		

For Higher-Income Individuals

The top marginal tax rate (37%) applies if your taxable income exceeds $500,000 in 2018 ($600,000 if married filing jointly, $300,000 if married filing separately). Your long-term capital gains and qualifying dividends could be taxed at a maximum 20% tax rate if your taxable income exceeds $425,800 in 2018 ($479,000 if married filing jointly, $239,500 if married filing separately, $452,400 if head of household).

Additionally, a 3.8% net investment income tax (unearned income Medicare contribution tax) may apply to some or all of your net investment income if your modified AGI exceeds $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately).

Note: High-income individuals are subject to an additional 0.9% Medicare (hospital insurance) payroll tax on wages exceeding $200,000 ($250,000 if married filing jointly, or $125,000 if married filing separately).

Business Tax Provisions

Corporate Tax Rates- The corporate tax rate structure, which features a top rate of 35%, is replaced with a flat 21% rate. The bill makes the new rate permanent.

Pass-through Entities- Under the new law, pass-through entities - such as partnerships, S corporations, LLCs and sole proprietors - can claim a 20% deduction on earnings, subject to special rule restrictions. The deduction is not available to higher-income personal service providers.

Bonus Depreciation- The new law doubles the first-year “bonus depreciation deduction” from 50% to 100%, but phases it out after five years.

The 100 percent depreciation deduction generally applies to depreciable business assets with a recovery period of 20 years or less and certain other property. Machinery, equipment, computer, appliance and furniture generally qualify.

The deduction applies to business property acquired and placed in service after Sept. 27, 2017, and before Jan. 1, 2023. In general, the bonus depreciation percentage is reduced for property placed in service after 2022.

Taxpayers may elect out of the additional first-year depreciation for the taxable year the property is placed in service. If the election is made, it applies to all qualified property that is in the same class of property and placed in service by the taxpayer in the same taxable year.

Vehicle Depreciation- The new law changed depreciation limits for passenger vehicles placed in service after Dec. 31, 2017. If the taxpayer doesn’t claim bonus depreciation, the greatest allowable depreciation deduction is:

- $10,000 for the first year,
- $16,000 for the second year,
- $9,600 for the third year, and
- $5,760 for each later taxable year in the recovery period.

If a taxpayer claims 100 percent bonus depreciation, the greatest allowable depreciation deduction is:

- $18,000 for the first year,
- $16,000 for the second year,
- $9,600 for the third year, and
- $5,760 for each later taxable year in the recovery period.

Corporate AMT- Unlike the individual AMT, the corporate version of the AMT is completely repealed.

This Publication provides summary information regarding the subject matter at time of printing.
The information herein is for informational purpose only and should not be construed as tax advice.
Please call us with any questions on how this information may impact your situation.