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The Tax Cuts and Jobs Act (TCJA) of 2017 made several significant changes to the individual's income tax, including reforms to itemized deductions, the alternative minimum tax, an expanded standard deduction and child tax credit, also lower marginal tax rates across all brackets. Unreimbursed employee business expenses will no longer be deductible.

The IRS has yet to set a date for accepting electronic tax returns. We anticipate it will be on the 3rd or 4th week of January 2019. The tax filing deadline will be April 15, 2019. The IRS is warning taxpayers to expect longer waits for their tax refunds. According to the PATH Act, the IRS cannot issue any portion of a refund for taxpayers who claim Earned Income Tax Credit or the Additional Child Tax Credit until late February. This allows the IRS additional time to help prevent refund fraud.

It is very important that you bring a copy of your Driver's License when you bring in your tax information.

TAX LAW CHANGES FOR 2018

- **At A Glance**

	2018	2019
Personal exemption	0	0
Standard mileage rates		
➢ business use	54.5₵	58₵
➢ charitable	14₵	14₵
➢ medical and moving	18₵	20₵
Standard meal rate	$51/day	$55/day
Social Security earnings limit		
➢ under full retirement age	$17,040	$17,640
➢ full retirement age	no limit	no limit
Wage base, Social Security Tax	$128,400	$132,900

	2018	2019
Contribution limits		
➢ 401Ks	$18,000	$19,000
additional catch up amount	$6,000	$6,000
➢ IRAs	$5,500	$6,000
additional catch up amount	$1,000	$1,000
➢ SIMPLEs	$12,500	$13,000
additional catch up amount	$3,000	$3,000
Automatic exemption from estate tax (in Millions)	$11.18	$11.40

$ **Estate & Gift tax**

The exclusion amount for 2018 is $11.18 million and $11.40 million for 2019. The estate tax rate for estates valued over this amount is 40% in 2018. The gift tax annual exclusion amount remains at $15,000.

- **<u>Qualified Charitable Distribution</u>**

For the charitable-minded taxpayer, there is a popular way to transfer IRA assets to charity via a tax provision which allows IRA owners who are 70 ½ or older to direct up to $100,000 per year of their IRA distributions to charity. These distributions are known as qualified charitable distributions, (QCD). The money given to charity counts toward the donor's required minimum distribution (RMD), but does not increase the donor's adjusted gross income or generate a tax bill.

- **<u>Investors</u>**

For 2018, the top capital gains rate will remain at 20%. The rate continues to remain at zero for couples with taxable income below $77,200 and singles below $38,600. There is also a 3.8% net investment income surtax for singles earning over $200,000 and couples earning over $250,000.

- **<u>Child tax Credit</u>**

For tax years after December 31, 2017 and before January 1, 2026, the child tax credit has increased to $2,000 per child under age 17 and $500 for any dependents over age 17. This credit begins to phase out for singles with adjusted gross income of $200,000 and $400,000 for married couples.

- **<u>Dependent Care Credit</u>**

If you paid someone to care for your child under age 13, a dependent or spouse last year, you may qualify for this credit. This credit can be up to 35% of $3,000 ($6,000 for 2 or more children) of your qualifying costs for care, depending upon your income. **We will need the federal identification number or social security number, name, and address of the provider.**

- **<u>Education Credits</u>**

The American opportunity Tax Credit (AOTC) is a credit for qualified expenses paid for an eligible student for the first four years of higher education. You can get the maximum annual credit of $2,500 per eligible student. If the credit brings the amount of tax you owe to zero, you have 40% of any remaining amount of the credit (up to $1,000) refunded. The Lifetime Learning Credit (LLC) is 20% of the first $10,000 of qualified education expenses or a maximum $2,000 per return. The LLC is not refundable. So, you can use the credit to pay any tax you owe, but you will not receive any of the credit back as a refund. As part of the Bipartisan Budget Act of 2018, the tuition and fee deduction has been eliminated for 2018.

- **<u>Student loan interest</u>**

This deduction allows up to $2,500 of qualifying student loan interest to be deducted as an above the line deduction, which lowers adjusted gross income. The phase out levels are $65,000 to $80,000 for single filers and $135,000 to $165,000 for joint filers.

- **<u>Foreign Accounts</u>**

The IRS is looking closely at offshore accounts. If you have an account, rental property, or business interest with a value over $10,000 in a foreign country, or a foreign business ownership (not through a mutual fund) please let us know as some special rules will apply to you.

- **<u>Business Equipment and Machinery</u>**

The TCJA extended and modified both Section 179 and Bonus depreciation. The deduction limit for Section 179 is $1 million ($1,020,000 in 2019) and the limit in capital purchases is $2.5

million. Section 179 will remain at the higher limits indefinitely. Section 179 deduction is available for most new and used capital equipment, and certain software. Bonus depreciation will be 100% through 2022 and is expanded to include used qualified property acquired and placed in service after September 27, 2017.

- **IRA/ ROTH**

Consider contributing to an IRA or ROTH IRA for 2018. The deadline to contribute for 2018 is April 15, 2019. You cannot deduct your Roth IRA contribution, but some or all of your traditional IRA contribution can be claimed as an IRA deduction. The deductible amount could be reduced or eliminated if you or your spouse are already covered by a retirement plan at work.

- **Simplified home-office deduction**

Individual taxpayers who elect this safe harbor method can deduct an amount determined by multiplying the allowable square footage by $5. The square footage cannot exceed 300 ft., for a maximum deduction of $1,500. Any expenses related to the home where the office is located (property taxes, utilities, repairs, depreciation, etc.) may not be deducted for business purposes if the safe harbor method is used.

- **Bundling Gifts and Donor Advised Funds**

The increase in the standard deduction combined with the elimination of many other itemized deductions means that many more tax returns will take the standard deduction. Taxpayers who use the standard deduction do not receive any marginal tax deduction for their charitable gifts. However, if you bundle multiple years of gifting into a single tax year, then you may be able to itemize again and, thus, restore your charitable tax deduction. This along with paying property taxes in full in the year you bundle, mortgage interest and state income taxes may help you rise above the standard deduction every other year. The downside to this is the charitable organization you donate to will only get donations every other year. To alleviate the effect of bundling you could set up a Donor-Advised Fund. **A Donor-Advised Fund**, or DAF, is a giving vehicle established at a public charity. It allows donors to make a charitable contribution, receive an immediate **tax deduction** and then recommend grants from the fund over time. Donors can contribute to the fund as frequently as they like, and then recommend grants to their favorite charities whenever they want.

ATTENTION ALL BUSINESS OWNERS

New Mexico Taxation & Revenue has been aggressively comparing gross receipts reported on Form CRS-1 to the amount reported on tax returns. If you file your own CRS-1's, please send us copies of the reports with your tax information so we can ensure you are in compliance. If you are a New Mexico resident and receive a Form 1099 for miscellaneous income, you may need to file and pay New Mexico gross receipts tax. Please call us if you have any questions.

Our firm works as a team. We believe we have developed a staff with a full set of complementary skills required to serve you. You may be assisted by a number of our team members, all working towards a common goal of providing the best possible service. We will work more diligently than ever to keep your tax bill at the lowest legal amount.

Sincerely,

Ebbs, Roberts, Head & Daw, Inc.