How the Tax Cut and Jobs Act (TCJA) will affect the Itemized Deductions

The TCJA basically doubled the standard deduction to $12,000 for single, $18,000 for Head of Household and $24,000 for Married Joint. The act also limited state and local income taxes (SALT) and property taxes to $10,000 and the eliminated the miscellaneous itemized deductions. The combined effect of these changes is many of the taxpayers who use to file Schedule A-Itemized Deductions will now claim the standard deduction.

Some things to consider for the 2018 tax year and beyond:

Charitable Contributions:

If you are charitably inclined consider consolidating the gifts you normally would make in two years (or more) into one tax year.

For retirees who are over age 70 ½ consider gifting directly from your IRA accounts to the qualified charity. Congress made permanent a tax provision allowing individuals to donate all or a portion of their Required Minimum Distributions (RMD) up to a maximum of $100,000 from their Individual Retirement Account (IRA) to qualified charitable organizations.

You may say how will this help? As you are aware when individuals withdraw money from their IRA the proceeds are normally taxable. When retirees reach age 70 ½ they are required to begin taking distributions from those retirement plans whether they need to or not. These required minimum distributions (RMDs) are then subject to Federal and State income taxes. By donating directly from the IRA to a qualified charity that portion of the RMD is not included as taxable income. In effect you get the charitable deduction on the front of your return and lower your Adjusted Gross Income (AGI). The tradeoff is you will not be able to claim the charitable contribution as an itemized deduction on Schedule A.

You may ask why jump through the hoops, why not just take my RMD and write a check to the charity? For those taxpayers whose income each year affects the amount of Medicare premiums withheld from their Social Security benefits, this RMD provision could help to control the premium cost by lowering your income. It may also lower the taxable portion of your Social Security benefits. More importantly, with the passing of the Tax Cuts and Jobs Act (TCJA) the majority of taxpayers WILL NOT be able to itemize their deductions. This means that many taxpayers will not be able to deduct charitable contributions as they have in the past.

Many IRA custodians, such as Charles Schwab, Fidelity and Vanguard have made it easy for the account holders by establishing check writing abilities for the IRA account owner. Thus the owner can write a check directly to the qualified organization from the IRA and the custodian will apply that distribution to the RMD amount for the respective year.

The direct payment has to be made from an IRA and is not allowed from other retirement accounts including 401(k)'s. If your retirement assets are in your former employer's retirement plan you would need to rollover the funds to an IRA account in order for you to take advantage of the RMD provision. This should not be done without first consulting your financial advisor.

Medical Expenses:

In order to deduct medical expenses the combined expenses must exceed 7.5% of your AGI for the year in question. Though you still will need to exceed the expanded standard deduction discussed above consider maximizing your medical expenses. If you know you will or have incurred significant medical expenses in a tax year and you are planning on other expenses in the future, such as planned dental work or purchase of a hearing aid for example, consider accelerating those costs into the current tax year. Remember that the RMD strategy mentioned earlier reduces your AGI. This would be another benefit of utilizing the qualified charitable distribution, allowing more medical expenses.

Miscellaneous Itemized deductions:

The TCJA eliminated miscellaneous itemized deductions for 2018 and thereafter. The more common expenses affected were tax preparation fees, investment expenses, union dues and unreimbursed employee business expenses.

The Tax Cut and Jobs Act did have an impact on itemized deductions but there are strategies that can be utilized to ensure you are receiving the best benefit possible. **Please consult your tax advisor in regards to these strategies to see if they are right for you.**

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