Important Changes for 2018

Due Date of Return

The due date for filing a 2018 return is Monday, April 15, 2019 for most filers. Residents of Maine and Massachusetts have until April 17, 2019, to file Form 1040, because April 15, 2019, is Patriot's Day and April 16, 2019, is Emancipation Day.

Tax Forms

Form 1040 is a shorter, simpler form for the 2019 tax season.

The new Form 1040 replaces the previous Form 1040 as well as the Form 1040A and Form 1040EZ. The new Form 1040 uses a "building block" approach, which can be supplemented with additional schedules if needed.

Alimony

For any divorce or separate maintenance instrument executed **after December 31, 2018**, (or executed on or before December 31, 2018 and modified after that date if the modification expressly provides that the amendments made by the Tax Cuts and Jobs Act, Section 11051, apply to such modification), alimony and separate maintenance payments are no longer deductible by the payor spouse. Additionally, alimony and separate maintenance payments are no longer included in income by the recipient of the payments.

Military Pay

U.S. Armed Forces members who served in the Sinai Peninsula of Egypt may qualify for combat zone tax benefits retroactive to June 2015.

Personal Exemption Amount

The deduction for all personal exemptions is suspended (reduced to zero), effective for taxable years beginning after December 31, 2017, and before January 1, 2026.

Modification of Rates

There is a new individual income tax rate structure: 10%, 12%, 22%, 24%, 32%, 35%, and 37%, effective for taxable years beginning after December 31, 2017, and before January 1, 2026.

Standard Deduction Increases

The standard deduction for taxpayers who do not itemize deductions on Schedule A (Form 1040) has increased. The standard deduction amounts for 2018 are:

- $24,000 – Married Filing Jointly or Qualifying Widow(er) (increase of $11,300)
- $18,000 – Head of Household (increase of $8,650)
- $12,000 – Single or Married Filing Separately (increase of $5,650)

Taxpayers who are 65 and Older or are Blind

For 2018, the additional standard deduction for taxpayers who are 65 and older or blind increased. The amounts are:

- $1,600 for Single or Head of Household
- $1,300 for married taxpayers or Qualifying Widow(er)

Itemized Deductions

Medical – Effective for taxable years beginning after December 31, 2016 and ending before January 1, 2019, the deduction for medical expenses is allowed to the extent that the expenses exceed 7.5% of adjusted gross income (AGI). After tax year 2018, the medical expense AGI limitation reverts to 10%.

Charitable Contributions – The total deduction for charitable contributions in cash to qualified organizations generally cannot be more than 60% (up from 50%) of an individual's AGI for the tax year (20% and 30% limits may apply in certain cases).

Excess contributions that individuals could not deduct in an earlier year because they exceed the limits may be deducted over a 5-year period. Contributions carried over are subject to the same percentage limits in the year to which they are carried. These same rules apply to the new 60% limit on cash charitable contributions made to qualified organizations.

For taxable years beginning after December 31, 2017, no deduction is allowed for any amount paid for the right to purchase tickets for seating at an athletic event in an athletic stadium of an institution of higher learning.

State and Local, etc. Taxes – For individuals, foreign real property taxes cannot be deducted.

There is a combined limitation for an individual of $10,000 ($5,000 if Married Filing Separately) on real property taxes, personal property taxes, and income taxes or general sales taxes that are unrelated to a business.

An amount paid before January 1, 2018 for state or local income tax will be treated as paid on the last day of the tax year for which it was imposed.

Qualified Residence Interest – The deduction for home equity debt is disallowed as a mortgage interest deduction unless the home equity debt was used to build, buy, or improve the taxpayer's qualified residence.

Effective for tax years beginning after December 31, 2017 and before January 1, 2026, the total amount allowed as a deduction for home mortgage interest is limited based on home acquisition debt of up to $750,000 ($375,000 if Married Filing Separately).

In the case of debt incurred before December 15, 2017, an individual may deduct mortgage interest on acquisition debt on a qualified residence of no more than $1,000,000 ($500,000 if Married Filing Separately). A taxpayer who entered into a binding written contract before December 15, 2017 to close on a purchase of a principal residence before January 1, 2018, and who purchases such residence before April 1, 2018, shall be considered to have incurred acquisition indebtedness prior to December 15, 2017.

Casualty and Theft Losses, Miscellaneous Itemized Deductions – For taxable years beginning after December 31, 2017 and before January 1, 2026, no miscellaneous itemized deductions will be allowed for Job Expenses and Certain Miscellaneous Deductions subject to the 2% limitation. This does not affect other miscellaneous deductions allowed on Form 1040 Schedule A not subject to the 2% limitation.

A taxpayer may claim a personal casualty loss (subject to certain limitations) only if such loss was attributable to a disaster declared by the president under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

Overall Limitation on Itemized Deductions – The overall limit on itemized deductions for higher income taxpayers has been suspended for tax years 2018 through 2025.

Standard Mileage Rate

For 2018, the following rates are in effect:

- 54.5 cents per mile for business miles driven

- 18 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations (no change)

The standard mileage rate for business cannot be used to claim an itemized deduction for unreimbursed employee travel expenses during the suspension of miscellaneous itemized deductions that are subject to the 2% of AGI floor.

The moving expense deduction is not allowed through 2025 and the exclusion from income of moving expense reimbursements from an employer is also suspended. The only exception is for active military service members who move pursuant to a military order to a new permanent duty station.

Deduction for Qualified Business Income

For taxable years beginning after December 31, 2017 and before January 1, 2026, there is a new deduction for pass-through businesses. Sole proprietors are categorized as pass-through businesses.

A sole proprietor may be able to deduct up to 20% of qualified business income (QBI). The calculations on Schedules C and SE are not affected by this deduction. Taxable income is not reduced below zero by the deduction. The deduction is limited for higher incomes and for specified service trades or businesses. Refer to the Volunteer Resource Guide and Publication 4491 for more information.

Retirement Savings Contribution Credit

To claim this credit, the taxpayer's modified adjusted gross income (MAGI) must not be more than $31,500 for Single, Married Filing Separately, or Qualifying Widower (increase of $500). MAGI must not be more than $47,250 (increase of $750) for Head of Household, and $63,000 (increase of $1,000) for Married Filing Jointly.

Designated beneficiaries of Achieving a Better Life Experience (ABLE) accounts may claim a retirement savings contributions credit for contributions they make to their ABLE account for tax years 2018-2025.

Child Tax Credit Changes

The maximum credit per qualifying child is $2,000 (increase from $1,000). The definition of a qualifying child has not changed. The refundable amount of the credit is limited to $1,400 per qualifying child. The earned income threshold amount used to calculate the refundable portion of the credit decreased from $3,000 to $2,500.

A new credit for other dependents of up to $500 is available for each dependent who doesn't qualify for the child tax credit.

The taxpayer must still include a valid Social Security number (SSN) for each qualifying child for whom the maximum $2,000 credit is claimed, and that SSN must also have been issued by the due date of the tax return (including extensions). A qualifying child who is ineligible for the child tax credit because that child did not have a valid SSN, or did not have a valid SSN by the due date of the tax return (including extensions) may still qualify for the non-refundable $500 credit.

The threshold at which the credit begins to phase out increased:

- For Married Filing Jointly, the threshold increased from $110,000 to $400,000
- For Single, Head of Household, or Qualifying Widow(er), the threshold increased from $75,000 to $200,000
- For Married Filing Separately, the threshold increased from $55,000 to $200,000

Earned Income Credit (EIC)

- For 2018, the maximum credit increased to:

- $6,431 with three or more children
- $5,716 with two children
- $3,461 with one child
- $519 with no children

Earned Income Amount Increased

To be eligible for a full or partial credit, the taxpayer must have earned income of at least $1 but less than:

- $49,194 ($54,884 if Married Filing Jointly) with three or more qualifying children
- $45,802 ($51,492 if Married Filing Jointly) with two qualifying children
- $40,320 ($46,010 if Married Filing Jointly) with one qualifying child
- $15,270 ($20,950 if Married Filing Jointly) with no qualifying child

Investment Income

Taxpayers whose investment income is more than $3,500 cannot claim the EIC.

Education Benefits

American opportunity credit for 2018 is gradually reduced (phased out) if taxpayers' MAGI is between $80,000 and $90,000 ($160,000 and $180,000 if Married Filing Jointly). Taxpayers cannot claim a credit if their MAGI is $90,000 or more ($180,000 or more if Married Filing Jointly). There is no change.

To claim the American opportunity credit, taxpayers must provide the educational institution's employer identification number (EIN) on Form 8863. Taxpayers should be able to obtain this information from Form 1098-T or the educational institution.

Lifetime learning credit for 2018 is gradually reduced (phased out) if taxpayers' MAGI is between $57,000 and $67,000 ($114,000 and $134,000 if Married Filing Jointly). Taxpayers cannot claim a credit if their MAGI is $67,000 or more ($134,000 or more if Married Filing Jointly).

Student loan interest deduction begins to phase out for taxpayers with MAGI in excess of $65,000 ($135,000 for joint returns) and is completely phased out for taxpayers with MAGI of $80,000 or more ($165,000 or more for joint returns). There is no change.

Code section 529 plans now allow such plans to distribute not more than $10,000 in expenses for tuition incurred during the taxable year in connection with the enrollment or attendance of the designated beneficiary at a public, private, or religious elementary or secondary school. This limitation applies on a per-student basis, rather than a per-account basis. This applies to distributions made after December 31, 2017.

Eligible Long-Term Care Premium Limits Increased

For 2018, the maximum amount of qualified long-term care premiums includible as medical expenses has increased. Qualified long-term care premiums up to the amounts shown below can be included as medical expenses on Schedule A (Form 1040) Itemized Deductions or in calculating the self-employed health insurance deduction.

$420: age 40 or under

$780: age 41 to 50

$1,560: age 51 to 60

$4,160: age 61 to 70

$5,200: age 71 and over

TIP The limit on premiums is for each person.

Foreign Earned Income Exclusion

For 2018, the maximum foreign earned income exclusion is $103,900.

Link & Learn Taxes – Optional Courses

Health Savings Account (HSA) Deduction

For 2018, the annual contribution limits on deductions for HSAs for individuals with self-only coverage is $3,450 (increase of $50) and $6,900 for family coverage (increase of $150). There is an additional contribution amount of $1,000 for taxpayers who are age 55 or older.

IRA Conversion to Roth IRA

A conversion of a traditional IRA to a Roth IRA, and a rollover from any other eligible retirement plan to a Roth IRA, made after December 31, 2017, cannot be recharacterized as having been made to a traditional IRA.

Deduction Amount and Modified AGI Limit for Traditional IRA Contributions Increased

For 2018, the maximum IRA deduction remains at $5,500 ($6,500 if age 50 or older). For taxpayers who are covered by a retirement plan at work, the deduction for contributions to a traditional IRA is reduced (phased out) if the modified AGI is:

- More than $101,000 but less than $121,000 for a married couple filing a joint return or a qualifying widow(er) if both spouses are covered by a retirement plan,
- More than $63,000 but less than $73,000 for a single individual or head of household, or
- Less than $10,000 for a married individual filing a separate return

For an IRA contributor who is **not** covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between $189,000 and $199,000.

Kiddie Tax

Modifications have been made to the tax based on earned income and the estates' and trusts' tax brackets. The child's tax rate is no longer affected by the tax situation of the parents or the unearned income of any siblings. Instead, all net unearned income over a threshold amount of $2,100 for 2018 is taxed using the brackets and rates for trusts and estates. This is a permanent change.

Affordable Care Act

The affordability threshold is 8.05% for 2018. Filing thresholds and Federal poverty line tables have been adjusted for inflation. Taxpayers who have qualifying health care coverage or a coverage exemption that covered all of 2018 or a combination of qualifying health care coverage and coverage exemption(s) for every month of 2018 can now check the "Full-year health care coverage or exempt" box on the front of Form 1040.

The Shared Responsibility Payment (SRP) percentage of income amount and flat dollar amount are unchanged for tax year 2018. For tax years beginning after December 31, 2018, the SRP is zero.

Details about these and other updates can be found in the Affordable Care Act lesson and in Publication 4012 Tab H, Other Taxes, Payments and ACA.

Extended and Expired Legislation

The Bipartisan Budget Act of 2018 extended the following provisions only through December 31, 2017. They are expired for 2018.

- Exclusion from gross income of qualified principal residence indebtedness
- Mortgage insurance premiums deductible as qualified residence interest
- Deduction for qualified tuition & fees
- Credit for nonbusiness energy property (residential energy credit)

Under the Protecting Americans from Tax Hikes (PATH) Act, ITINs that have not been used on a federal tax return at least once in the last three consecutive years will expire Dec. 31, 2018, and ITINs with middle digits 73, 74, 75, 76, 77, 81 or 82 will also expire at the end of the year. Affected taxpayers who expect to file a tax return in 2019 must submit a renewal application.

CAUTION Congress may enact additional legislation that will affect taxpayers after this publication goes to print. Any changes will be reflected in Publication 4491-X, VITA/TCE Training Supplement, available in mid-January on www.irs.gov.

Changes to Pub 4012

- Tab C has been renamed Dependents
- A glossary has been added to Tab Q

Changes to Scope

The following are now in scope:

- **Kiddie Tax** – See Publication 4491, Standard Deduction and Tax Computation, Other Taxes, and Education Credits lessons. Also refer to the Volunteer Resource Guide, Tab H.
- **Self-Employed Health Insurance Deduction** – See Publication 4491, Adjustments to Income lesson, and the Volunteer Resource Guide, Tab E (Advanced certification only).
- **Itemized deductions** – The Itemized Deductions lesson in Publication 4491 is now Advanced certification only and no longer required for Basic certification.

IRS Withholding Calculator

The IRS Withholding Calculator has been adjusted to account for the Tax Reform and Jobs Act. Due to significant changes resulting from the new tax law, taxpayers who are wage-earners should use the calculator to determine whether they need to update their withholding. This may be particularly important for taxpayers with a significant balance due or a larger than normal refund for tax year 2018.

If the taxpayer is a wage-earning employee, the Withholding Calculator helps them determine whether they need to give their employer a new Form W-4, Employee's Withholding Allowance Certificate, so that the proper amount of withholding can be withheld from their pay check. The calculator mirrors the Form W-4 worksheet. The taxpayer can use the results from the calculator to help fill out the form and adjust their income tax withholding.

The calculator’s results will only be as accurate as the information provided by the taxpayer. During the year if the taxpayer’s circumstances change (Examples: job change, marital status change, have a child), they will need to use the calculator to ensure their withholding is still correct.

Whereas the Withholding Calculator works for most taxpayers, those with more complex tax situations should use the instructions in Publication 505, Tax Withholding and Estimated Tax.

Notes