

## Tax Reform: Itemized Deductions

By Sam Masri

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Tax reform has arrived with some changes that could have a big impact on your bottom line. Itemized deductions have changed drastically with all of the new limitations and eliminations and with the standard deduction increasing to \$24,000 for married individuals and \$12,000 for all other taxpayers, it will become harder to meet the itemized deductions threshold than ever before.

We have summarized some things you want may want to keep in mind on your tax returns beginning after December 31, 2017 and before January 1, 2026, unless otherwise noted.

### Key Highlights

- Combined state and local general sales tax deduction is limited to \$10,000
- Qualifying acquisition debt is reduced to \$750,000 and home equity interest deduction is disallowed
- Itemized deduction limitation is eliminated and miscellaneous itemized deductions are suspended
- Deductible medical expenses must exceed 7.5% of Adjusted Gross Income (AGI)
- Charitable contribution limit increased to 60% of AGI

The maximum allowed deduction for state and local real property taxes; state and local personal property taxes; state and local, foreign income taxes; and general sales taxes (if elected) for any tax year to \$10,000 (\$5,000 for marrieds filing separately). However, this limitation, does not apply if those taxes are paid or accrued in carrying on a trade or business or in an activity engaged in for the production of income. Also, the new law treats any amount paid in 2017 for a state or local income tax imposed for a tax year beginning in 2018 as paid on the last day of the 2018 tax year. So an individual may not claim an itemized deduction in 2017 on a pre-payment of income tax for a future tax year in order to avoid the \$10,000 aggregate limitation.

The limit on qualifying acquisition debt is reduced to \$750,000 (\$375,000 for a married taxpayer filing separately). However, for acquisition debt incurred before December 15, 2017, the higher pre-Act limit applies. The higher pre-Act limit also applies to debt arising from refinancing pre-December 15, 2017 acquisition debt, to the extent the debt resulting from the refinancing does not exceed the original debt amount. This means you can refinance up to \$1 million of pre-December 15, 2017 acquisition debt in the future and not be subject to the reduced limitation. Also, beginning 2018 there will be no deduction allowed for any interest on home equity debt unless the proceeds are used to make "substantial improvements" to the home and the combined total of the first mortgage and equity loan does not exceed the new \$750,000 limit.

Prior to 2018, taxpayers were sometimes subject to a limitation of itemized deductions based on certain criteria. Beginning in 2018, there is no longer a limitation on your itemized deductions. This means any itemized deductions claimed on schedule A will be fully deductible. Also, miscellaneous itemized deductions that were subject to 2% of AGI have been suspended. Such expenses include, but are not limited to: unreimbursed employee business expenses, 1040 tax preparation fees, union dues, and investment advisory fees.

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5750 Old Orchard Road, Suite 200  
Skokie, IL 60077  
Phone 847.982.0333  
Fax 847.982.0219

For 2017 and 2018, medical expense are now deductible to everyone when these expenses exceed 7.5% of their AGI. Prior to the law change, deductions were only allowed if expenses exceeded 10% of your AGI unless you were over the age of 65 before the end of the taxable year in which you were allowed to deduct anything over 7.5%. Post 2018, medical expense will be deductible to the extent these expenses exceed 10% of your AGI.

Gambling losses were modified to include all expenses incurred in carrying out wagering transactions. These deductions are still limited to the extent of gambling winnings.

The 50% limitation under prior law for cash contributions to public charities and certain private foundations is increased to 60%. Any contributions exceeding the 60% limitation can be carried forward and deductible for up to five years, but are subject to the later year's limitation amount.

With all of the above changes it may be worthwhile to consider a bunching strategy in which you itemize every other year to ensure you will have enough itemized deductions to exceed the standard deduction threshold. If you have any questions on the changes or would like to discuss planning strategies, please reach out to the MichaelSilver tax experts at 847-982-0333.

**Sam Masri** serves as a Tax Supervisor. Throughout his career, he has gained a wealth of knowledge in multiple areas of taxation and has worked primarily with business clients to formulate tax strategies. Sam received his Bachelor of Science in Business from DePaul University, with a Major in Accounting.

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