How the New Tax Bill Affects Itemized Deductions in 2018

Knowing what you can no longer deduct can save you money at tax time

Tax Cuts and Jobs Act made a *lot* of changes to the existing tax code. Most of them begin in 2018 and they're a lot to get your mind around. If you've historically chosen to itemize rather than take the standard deduction, here's what you need to know in the years going forward.

The TCJA tweaks and even eliminates a good many itemized deductions, but most of the changes are temporary. They'll expire in 2025 unless Congress votes to keep some or all of them. Meanwhile, you might want to plan accordingly if you've normally claimed some or all of these deductions.

The Medical Expenses Deduction

The changes to the itemized deduction for medical expenses is actually pro-taxpayer, at least for a short time.

You could only claim a deduction for the portion of your expenses that exceeded 10 percent of your adjusted gross income through the 2016 tax year. The TCJA reduces that threshold to 7.5 percent, although only for tax years 2017 and 2018. This provision is retroactive, so you get a little gift as you go about preparing your 2017 return—you'll be able to deduct somewhat more in medical expenses.

The other rules remain the same. You can claim expenses incurred for yourself, your spouse, or your dependents, and you must have paid them in the same year you claim them as a deduction. The 7.5 percent threshold is scheduled to increase back up to 10 percent in 2019, so you might want to spend the money now rather than later if you're considering elective procedures that are deductible under the law. Just keep in mind that cosmetic-type surgeries and treatments are *not* deductible, although those that are preventative and those that treat existing problems are.

The State and Local Taxes Deduction (SALT)

This deduction was a matter of hot debate as the TCJA made its way through Congress at the end of 2017. It used to be unlimited, and it covered a range of taxes: property, sales, and income, although you did have to choose between deducting sales taxes or income taxes. You couldn't claim a deduction for both.

That's still the rule, but now there's an overall limit to how much you can deduct. It caps out at $10,000 under the terms of the TCJA. If you pay $6,000 in property taxes and $5,000 in income taxes for a total of $11,000, you'll lose $1,000 of that deduction beginning in 2018. You can either claim $5,000 in property taxes or $4,000 in income taxes, but that other $1,000 for the full $11,000 you paid is no longer available. This will be a real blow to those who live in states with high income tax rates or areas with high property tax rates, such as New York, New Jersey, California and the District of Columbia.

And if you're married and file a separate return, you must cut that $10,000 figure in half. These filers are entitled to only a $5,000 deduction in state, property and local taxes. This rule doesn't apply to single or head of household filers, however—they can claim the full $10,000.

Foreign real property taxes can't be deducted anymore, either. The TCJA eliminates that tax law provision.

Can You Prepay Your Taxes to Get the Old Deduction?

This aspect of the new tax bill had many taxpayers storming their local property tax assessment offices at the end of 2017. hoping to prepay their 2018 taxes so they could still claim a deduction for the full amount. But on December 27, 2017, the Internal Revenue Service effectively said, "Not so fast." If you *did* prepay your 2018 property taxes in December, they're only deductible in 2017 to the extent that they were already assessed. In other words, you actually received a bill for your 2018 taxes—and paid them—before December 31, 2017.

You can't claim a 2017 deduction for what the IRS has called "anticipated" 2018 taxes.

The Deduction for Home Mortgage Interest

This deduction hasn't been eliminated either, but it's suffered. It's more restricted now, but to be fair, many taxpayers won't feel the bite. Only those who can afford particularly sizeable mortgages will be affected.

Through 2017, you could deduct interest on mortgage loans of up to $1 million if they were used to acquire a first or second residence, or $500,000 if you were married and filed a separate return. You could also deduct interest on home equity loans of up to $100,000. The TCJA cuts this to acquisition loans topping out at $750,000, or $375,000 for married taxpayers filing separately, and you can no longer deduct interest on home equity loans.

In other words, unless you can qualify for a $750,000-plus mortgage, not much changes for you.

The applicable dates aren't as clear cut with the amendments to this deduction. The old $1 million limit doesn't quite last until December 31, 2017. It applies only to mortgages contracted for before December 14, 2017, and you must close on the property by April 1, 2018.

And here's another wrinkle: You can refinance an existing mortgage that you took out before December 14 in tax year 2018 or later and you can still deduct the interest, but only if the refinanced amount isn't greater than your old loan balance. Remember, the deduction for interest on home equity loans has been eliminated, but if you're not taking any cash out, you're fine.

Deductions Affecting Workers

The TCJA also eliminates two advantageous deductions for the working class. It used to be that you could deduct certain moving expenses if you had to relocate for work-related reasons, subject to several qualifying rules. Hopefully, you moved before December 31, 2017 or you can hold off on doing so until the TCJA expires in 2025, because this deduction is no more.

Technically, this was an above-the-line deduction, an "add-on" to your itemized deductions or your standard deduction. And this change does *not* affect active duty military personnel. They can still claim this deduction when and if they're forced to move for service-related reasons.

Those miscellaneous itemized deductions you used to be able to claim for expenses you had to make for work-related purposes are gone, too. Some miscellaneous deductions have survived the TCJA, but not this one. On the bright side, these were only deductible to the extent that they exceeded 2 percent of your AGI anyway, and if they were not reimbursed by your employer.

The Casualty and Theft Losses Deduction

The casualty and theft losses itemized deduction survived…sort of, but it's been pared way back. Beginning in 2018, you can only claim this deduction if you suffered a loss due to a federally-declared disaster. The U.S. President must cite the event as a disaster. Fortunately, this covers most catastrophic events like hurricanes, but you're out of luck if your neighbor steals your brand new laptop.

No More Pease Limitations

Charitable deductions are still alive and well and they remain unchanged, and here's a bit of good news. This deduction—as well as the home mortgage interest deduction—was subject to something called the Pease limitations through 2017. For those with high incomes, these limitations reduced itemized deductions by 3 percent for every dollar of taxable income over certain thresholds and ultimately up to 80 percent of their itemized deductions.

The TCJA repeals the Pease limitations, so go ahead and donate to your favorite charity no matter how much you earn. You can still claim this tax deduction in full.

The Standard Deduction vs. Itemized Deductions

It might not be all doom and gloom for some taxpayers. Yes, you're losing a handful of itemized deductions and other deductions have been limited. But the TCJA almost doubles standard deductions for all filing statuses: from $6,350 to $12,000 for single taxpayers, from $12,700 to $24,000 for married taxpayers who file jointly, and from $9,350 to $18,000 for those who qualify to file as head of household. So while your available itemized deductions might shrink, your available standard deduction will mushroom, potentially offsetting the loss.

You might find that you come out in much the same tax situation as before, or you might even come out ahead under the new rules. If you and your spouse were historically able to amass

$20,000 in deductions, or if your itemized deductions are reduced to under $24,000 in 2018 by the new law, you'd actually lose money by itemizing. But depending on your exact numbers, you might be able to salvage the situation by claiming the standard deduction instead.

Plan your 2018 spending accordingly if you're making expenditures with the expectation of deducting them at tax time, and keep in mind that you may be able to make up some—if not all—of the difference by claiming the standard deduction instead.