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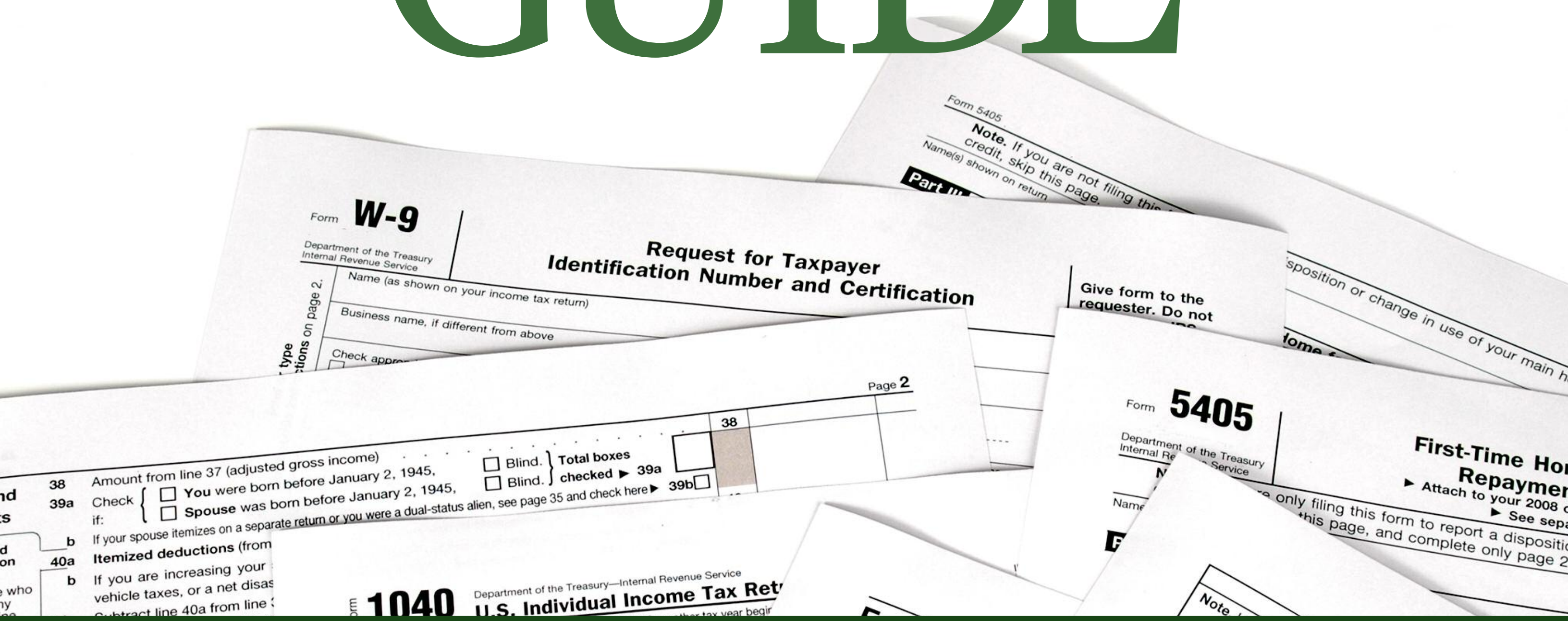
NEWSLETTERS

Forbes 2018 TAX GUIDE



By Kelly Phillips Erb

The Internal Revenue Service has announced the annual inflation adjustments for a number of tax-related provisions for 2018, including, of course, the latest tax rate schedules and tax tables.

These are the numbers for the **tax year 2018** beginning January 1, 2018 (assuming there are no big changes as the result of tax reform). They are not the numbers and tables that you'll use to prepare your 2017 tax returns in 2018 (if you need those figures, please see page 8 of this report). You'll use these numbers to prepare your 2018 tax returns in 2019.

If you aren't expecting any significant changes in 2018, you can use the updated tax tables and other tax numbers to estimate your liability. If you expect to make more money or have a change in your circumstances (i.e., get married, buy a house, start a business, have a baby), consider adjusting your withholding or tweaking your estimated tax payments.

Tax Brackets and Tax Rates

The big news is, of course, the tax brackets and tax rates for 2018. The top tax rate remains 39.6%. The other marginal rates are: 10%, 15%, 25%, 28%, 33% and 35% (there is also a zero rate). Here's how it breaks out:

Married Individuals Filing Joint Returns and Surviving Spouses:

If Taxable Income Is Between:	The Tax Due Is:
0 - $19,050	10% of taxable income
$19,051 - $77,400	$1,905 + 15% of the amount over $19,050
$77,401 - $156,150	$10,657.50 + 25% of the amount over $77,400
$156,151 - $237,950	$30,345 + 28% of the amount over $156,150
$237,951 - $424,950	$53,249 + 33% of the amount over $237,950
$424,951 - $480,050	$114,959 + 35% of the amount over $424,950
$480,051 +	$134,244 + 39.6% of the amount over $480,050

Head of Household:

If Taxable Income Is Between:	The Tax Due Is:
0 - $13,600	10% of taxable income
$13,601 - $51,850	$1,360 + 15% of the amount over $13,600
$51,851 - $133,850	$7,097.50 + 25% of the amount over $51,850
$133,850 - $216,700	$27,597.50 + 28% of the amount over $133,850
$216,701 - $424,950	$50,795.50 + 33% of the amount over $216,700
$424,951 - $453,350	$119,518 + 35% of the amount over $424,950
$453,351 +	$129,458 + 39.6% of the amount over $453,350

Individual Taxpayers:

If Taxable Income Is Between:	The Tax Due Is:
0 - $9,525	10% of taxable income
$9,526- $38,700	$952.50 + 15% of the amount over $9,525
$38,701 - $93,700	$5,328.75 + 25% of the amount over $38,700
$93,701 - $195,450	$19,078.75 + 28% of the amount over $93,700
$194,451 - $424,950	$47,568.75 + 33% of the amount over $195,450
$424,951 - $426,700	$123,303.75 + 35% of the amount over $424,950
$426,701 +	$123,916.25 + 39.6% of the amount over $426,700

Married Individuals Filing Separate Returns:

If Taxable Income Is Between:	The Tax Due Is:
$0 - $9,525	10% of taxable income
$9,526 - $38,700	$952.50 + 15% of the amount over $9,525
$38,701 - $78,075	$5,328.75 + 25% of the amount over $38,700
$78,076 - $118,975	$15,172.50 + 28% of the amount over $78,075
$118,976 - $212,475	$26,624.50 + 33% of the amount over $118,975
$212,476 - $240,025	$57,479.50 + 35% of the amount over $212,475
$240,026 +	$67,122 + 39.6% of the amount over $240,025

The **standard deduction** for single taxpayers and married couples filing separately is $6,500 in 2018, up from $6,350 in 2017. For married couples filing jointly, the standard deduction is $13,000, up from $12,700 in the prior year. For heads of households, the standard deduction is $9,550 for 2018, up from $9,350. The numbers look like this:

Filing Status	Standard Deduction Amount
Single	$6,500
Married Filing Jointly & Surviving Spouse	$13,000
Married Filing Separately	$6,500
Head of Household	$9,550

• For 2018, the **additional standard deduction** amount for the aged or the blind is $1,300. The additional standard deduction amount increases to $1,600 for unmarried taxpayers.

• For 2018, the **standard deduction for a taxpayer who can be claimed as a dependent by an other taxpayer** cannot exceed the greater of (a) $1,050 or (b) $350 plus the dependent's earned income.

For high-income taxpayers who **itemize their deductions**, the Pease limitations, named after former Rep. Don Pease (D-OH), may cap or phase out certain deductions. The Pease thresholds for 2018 are:

Pease Limitations

Filing Status	Pease Threshold Begins:
Individual	$266,700
Married Filing Jointly & Surviving Spouses	$320,000
Head of Household	$293,350
Married Filing Separately	$160,000

If the Pease limitations apply, the total of your itemized deductions is reduced by the lesser of 3% of adjusted gross income (AGI) above the threshold or 80% of the amount of itemized deductions otherwise allowable. Pease limitations apply to charitable donations, the home mortgage interest deduction, state and local tax deductions, and miscellaneous itemized deductions. They do not apply to medical expenses, investment expenses, gambling losses, and certain theft and casualty losses.

The **personal exemption amount** for 2018 is $4,150. However, the exemption is subject to a phaseout for married taxpayers with an AGI beginning at $266,700 ($320,000 for married couples filing jointly) and phasing out completely at $389,200 ($442,500 for married couples filing jointly). Other phaseouts apply as follows:

Personal Exemption Phaseout "PEP" Threshold

Filing Status	PEP Threshold Begins	PEP Threshold Ends
Individual	$266,700	$389,200
Married Filing Jointly	$320,000	$442,500
Head of Household	$293,550	$415,850
Married Filing Separately	$160,000	$221,250

The **alternative minimum tax (AMT) exemption amounts** are now permanently adjusted for inflation. For 2018, the AMT exemption amounts are as follows:

Filing Status	Exemption Amount:
Individual	$55,400
Married Filing Jointly & Surviving Spouses	$86,200
Married Filing Separately	$43,100
Trusts & Estates	$24,600

The **kiddie tax** applies to unearned income for children under the age of 19 and college students under the age of 24. Unearned income is income from sources other than wages and salary, such as dividends and interest. For 2018, the kiddie tax threshold—meaning the amount of unearned net income that a child can take home without paying any federal income tax—remains at $1,050. That means all unearned income in excess of $2,100 is taxed at the child's parent's tax rate.

- There's an AMT for the kiddie tax, too. For 2018, the **AMT exemption amount for the kiddie tax** may not exceed the sum of the child's earned income plus $7,650.

Some **tax credits** are also adjusted for 2018. Some of the most common tax credits are:

• **Earned Income Tax Credit (EITC):** For 2018, the maximum EITC amount available is $6,444 for taxpayers filing jointly who have three or more qualifying children. The revenue procedure has a table providing maximum credit amounts for other categories, income thresholds and phaseouts.

• **Child & Dependent Care Credit:** For 2018, the value used to determine the amount of credit that may be refundable is $3,000 (the credit amount has not changed). Keep in mind that this is the value of the expenses used to determine the credit and not the actual amount of the credit.

• **Adoption Credit:** For 2018, the credit allowed for an adoption of a child with special needs is $13,840, and the maximum credit allowed for other adoptions is the amount of qualified adoption expenses up to $13,840. Phaseouts apply beginning with modified adjusted gross income (MAGI) in excess of $207,580 and completely phase out for taxpayers with MAGI of $247,580 or more.

• **Lifetime Learning Credit:** Income restrictions apply to the Lifetime Learning Credit. For 2018, the adjusted gross income amount used to determine the reduction in the Lifetime Learning Credit is $57,000 (or $114,000 for joint filers).

Changes were also made to certain **tax deductions, deferrals and exclusions** for 2018. You'll find some of the most common below.

• **Student Loan Interest Deduction:** For 2018, the maximum amount that you can take as a deduction for interest paid on student loans remains at $2,500. Phaseouts apply for taxpayers with modified adjusted gross income (MAGI) in excess of $65,000 ($135,000 for joint returns) and is completely phased out for taxpayers with modified adjusted gross income (MAGI) of $80,000 or more ($165,000 or more for joint returns).

• **Foreign Earned Income Exclusion:** For tax year 2018, the foreign earned income exclusion is $104,100, up from $102,100 for tax year 2017.

• **Transportation and Parking Benefits:** For 2018, the monthly limitation for the qualified transportation fringe benefit is $260 (up just $5) for transportation in a commuter highway vehicle or any transit pass, as well as qualified parking.

• **Medical Savings Accounts (MSA):** For 2018, a high deductible health plan (HDHP) is one that, for participants who have self-only coverage in an MSA, has an annual deductible that is not less than $2,300 but not more than $3,450; for self-only coverage, the maximum out of pocket expense amount is $4,500. For 2018, HDHP means, for participants with family coverage, an annual deductible that is not less than $4,600 but not more than $6,850; for family coverage, the maximum out of pocket expense is $8,400.

Taxpayers that don't maintain health insurance coverage must claim a waiver or exemption or be subject to the shared individual responsibility payment. For 2018, that penalty is equal to 2.5% of your adjusted gross income (AGI), or $695 per adult and $347.50 per child, up to a maximum of $2,085, whichever is higher. That amount is unchanged from 2017.

And remember that passport revocation rule? For 2018, the amount of a serious delinquent tax debt is defined as $51,000 for those purposes.

More cost-of-living and other adjustments are available through Rev. Proc. 2017-58 (*downloads as a pdf*).

If you haven't prepared your tax returns for 2017 yet be sure to check out last year's tax change highlights on the following pages.

2017 Tax Brackets

Individual Taxpayers:

If Taxable Income Is Between:	The Tax Due Is:
0 - $9,325	10% of taxable income
$9,326- $37,950	$932.50 + 15% of the amount over $9,325
$37,951 - $91,900	$5,226.25 + 25% of the amount over $37,950
$91,901 - $191,650	$18,713.75 + 28% of the amount over $91,900
$191,651 - $416,700	$46,643.75 + 33% of the amount over $191,650
$416,701 - $418,400	$120,910.25 + 35% of the amount over $416,700
$418,401 +	$121,505.25 + 39.6% of the amount over $418,400

Married Individuals Filing Joint Returns and Surviving Spouses:

If Taxable Income Is Between:	The Tax Due Is:
0 - $18,650	10% of taxable income
$18,651 - $75,900	$1,865 + 15% of the amount over $18,650
$75,901 - $153,100	$10,452.50 + 25% of the amount over $75,900
$153,101 - $233,350	$29,752.50 + 28% of the amount over $153,100
$233,351 - $416,700	$52,222.50 + 33% of the amount over $233,350
$416,701 - $470,700	$112,728 + 35% of the amount over $416,700
$470,701 +	$131,628 + 39.6% of the amount over $470,700

Head of Household:

If Taxable Income Is Between:	The Tax Due Is:
0 - $13,350	10% of taxable income
$13,351 - $50,800	$1,335 + 15% of the amount over $13,350
$50,801 - $131,200	$6,952.50 + 25% of the amount over $50,800
$131,201 - $212,500	$27,052.50 + 28% of the amount over $131,200
$212,501 - $416,700	$49,816.50 + 33% of the amount over $212,500
$416,701 - $444,500	$117,202.50 + 35% of the amount over $416,700
$444,501 +	$126,950 + 39.6% of the amount over $444,550

Married Individuals Filing Separate Returns:

If Taxable Income Is Between:	The Tax Due Is:
$0 - $9,325	10% of taxable income
$9,326 - $37,950	$932.50 + 15% of the amount over $9,325
$37,951 - $76,550	$5,226.25 + 25% of the amount over $37,950
$76,551 - $116,675	$14,876.25 + 28% of the amount over $76,550
$116,676 - $208,350	$26,111.25 + 33% of the amount over $116,675
$208,351 - $235,350	$56,364 + 35% of the amount over $208,350
$235,351 +	$65,814 + 39.6% of the amount over $235,350

The standard deduction for single taxpayers and married couples filing separately is $6,350 in 2017, up from $6,300 in 2016. For married couples filing jointly, the standard deduction is $12,700, up $100 from the prior year. And for heads of households, the standard deduction is $9,350 for 2017, up from $9,300.

The numbers look like this:

Filing Status	Standard Deduction Amount
Single	$6,350
Married Filing Jointly & Surviving Spouse	$12,700
Married Filing Separately	$6,350
Head of Household	$9,350

For 2017, the additional standard deduction amount for the aged or the blind is $1,250. The additional standard deduction amount is increased to $1,550 if the individual is also unmarried and not a surviving spouse.

For 2017, the standard deduction for a taxpayer who can be claimed as a dependent by another taxpayer cannot exceed the greater of (a) $1,050 or (b) $350 plus the dependent's earned income.

For those taxpayers who itemize their deductions, the Pease limitations, named after former Rep. Don Pease (D-OH), may cap or phase out certain deductions for high-income taxpayers. The Pease thresholds for 2017 are below.

If the Pease limitations apply, the total of all your itemized deductions is reduced by the lesser of 3% of AGI above the applicable threshold or 80% of the amount of itemized deductions otherwise allowable for the tax year.

Pease Limitations

Filing Status	Pease Threshold Begins:
Individual	$261,500
Married Filing Jointly & Surviving Spouses	$313,800
Head of Household	$287,650
Married Filing Separately	$156,900

Pease limitations apply to charitable donations, the home mortgage interest deduction, state and local tax deductions and miscellaneous itemized deductions. They do not apply to medical expenses, investment expenses, gambling losses and certain theft and casualty losses.

Keep in mind that the floor for medical expenses in 2017 is 10% of adjusted gross income (AGI) for all taxpayers. Taxpayers over the age of 65 could use the 7.5% floor through 2016: in 2017, the favored tax rate disappears and all taxpayers are subject to the 10% floor.

The personal exemption amount for 2017 is $4,050, the same as 2016. However, the exemption is subject to a phaseout that begins with adjusted gross incomes of $261,500 ($313,800 for married couples filing jointly). It phases out completely at $384,000 ($436,300 for married couples filing jointly). Phaseouts apply as follows:

Personal Exemption Phaseout "PEP" Threshold

Filing Status	PEP Threshold Begins	PEP Threshold Ends
Individual	$261,500	$384,000
Married Filing Jointly	$313,800	$436,300
Head of Household	$287,650	$410,150
Married Filing Separately	$156,900	$218,150

In years past, the AMT was subject to a last-minute scramble by Congress to "patch" the exemption but as part of the American Taxpayer Relief Act of 2012 (ATRA), the AMT exemption amounts are permanently adjusted for inflation—that's why you now see it in this list. The AMT exemption amounts are as follows:

Alternative Minimum Tax (AMT) Exemptions

Filing Status	Exemption Amount:
Individual	$54,300
Married Filing Jointly & Surviving Spouses	$84,500
Married Filing Separately	$42,250
Trusts & Estates	$24,100

The kiddie tax applies to unearned income for children under the age of 19 and college students under the age of 24. For 2017, the threshold for the kiddie tax—meaning the amount of unearned net income that a child can take home without paying any federal income tax—is $1,050. All unearned income in excess of $2,100 is taxed at the parent's tax rate.

Some tax credits are also adjusted for 2017. Some of the most common tax credits are:

• **Earned Income Tax Credit (EITC):** For 2017, the maximum EITC amount available is $6,318 for taxpayers filing jointly who have three or more qualifying children. The revenue procedure has a table providing maximum credit amounts for other categories, income thresholds and phaseouts.

• **Child & Dependent Care Credit:** For 2017, the value used to determine the amount of credit that may be refundable is $3,000 (the credit amount has not changed). Keep in mind that this is the value of the expenses used to determine the credit and not the actual amount of the credit.

• **Adoption Credit:** For 2017, the credit allowed for an adoption of a child with special needs is $13,570, and the maximum credit allowed for other adoptions is the amount of qualified adoption expenses up to $13,570. Phaseouts do apply beginning at taxpayers with modified adjusted gross income (MAGI) in excess of $203,540 and completely phased out for taxpayers with MAGI of $243,540 or more.

• **Hope Scholarship Credit:** The Hope Scholarship Credit for 2017 will remain an amount equal to 100% of qualified tuition and related expenses not in excess of $2,000 plus 25% of those expenses in excess of $2,000 but not in excess of $4,000. That means that the maximum Hope Scholarship Credit allowable for 2017 is $2,500.

• **Lifetime Learning Credit:** As with the Hope Scholarship Credit, income restrictions apply to the Lifetime Learning Credit. For 2017, the adjusted gross income amount used to determine the reduction in the Lifetime Learning Credit is $56,000 ($112,000 for joint filers).

Changes were also made to certain tax deductions, deferrals and exclusions for 2017. You'll find some of the most common here:

• **Student Loan Interest Deduction**: For 2017, the maximum amount that you can take as a deduction for interest paid on student loans remains at $2,500. Phaseouts apply for taxpayers with modified adjusted gross income (MAGI) in excess of $65,000 ($135,000 for joint returns) and is completely phased out for taxpayers with modified adjusted gross income (MAGI) of $80,000 or more ($165,000 or more for joint returns).

• **Foreign Earned Income Exclusion:** For tax year 2017, the foreign earned income exclusion is $102,100, up from $101,300 for tax year 2016.

• **Transportation and Parking Benefits:** For 2017, the monthly limitation for the qualified transportation fringe benefit is $255 for transportation in a commuter highway vehicle or any transit pass, as well as qualified parking.

• **Medical Savings Accounts:** For 2017, the term "high deductible health plan" means, for participants who have self-only coverage in a Medical Savings Account, an annual deductible that is not less than $2,250 but not more than $3,350. For self-only coverage, the maximum out of pocket expense amount is $4,500. For 2017, the term "high deductible health plan" means, for participants with family coverage, an annual deductible that is not less than $4,500 but not more than $6,700. For family coverage, the maximum out of pocket expense is $8,250.

A Millennials Guide To Tax Reform

by William Baldwin

Tax cuts. Reform. Incentives. All this talk about how to boost economic growth by fixing the tax code falls on the jaded ears of people old enough to remember the same debates 36 years ago, in Ronald Reagan's first term. For people born since—and a refresher for the rest of us—especially those of an idealistic bent, we offer this glossary of the key concepts.

AMT: The much-despised alternative minimum tax, in which rates are somewhat lower than those in the usual income tax but the deduction for state and local taxes is not available. One of the selling points of various tax plans proposed by Donald Trump and Paul Ryan is the "elimination" of the AMT. But since these proposals combine low rates with a zapping of the state and local deduction, it would be more accurate to describe them as a way to extend the AMT to everyone.

Buffett Rule: The magnanimous proposal that those with high incomes should pay a tax of at least 30%. It is endorsed by people so wealthy that taxes are irrelevant to their lifestyles.

Capital gain tax: A levy altered often enough to create what is called a natural economic experiment. Sometimes, after a cut in the rate, revenues from it go higher as asset owners undertake trades that have been pent up for years. This proves the supply-side theory that lower tax rates yield higher revenues.

Or does it? Let's try this experiment: Instead of cutting capital gain taxes, Congress enacts legislation that triples the rate, effective Jan. 1, 2019. If there's a burst of activity in 2018, we have proof of the reverse.

Death tax: An appellation used by Republicans for the tax on bequests. By renaming what used to be called the estate tax, they have inspired a clamor for its repeal from middle-class taxpayers unaware that the tax now applies only to eight-figure estates.

Family businesses, small businesses: A category of taxpayers viewed as deserving of special help. That is, someone whose family owns a chain of hardware stores small enough to be worth only $20 million should pay at a lower rate than someone who owns $20,000 of Home Depot shares, because Home Depot is a big business.

Laffer curve: An epic line drawn on a cocktail napkin in 1974 illustrating the point that a 100% tax rate would yield no revenue. By extrapolation, the curve serves as evidence that a tax cut can pay for itself by paradoxically increasing revenue to the government. It thus enables politicians to vote for tax cuts while proclaiming their devotion to fiscal prudence.

Marginal rate: The tax paid on an incremental dollar of income, that rate being, in economic theory, a prime determinant of a citizen's incentive to work. It is the counterpart to the disincentive to work that arises from welfare and unemployment compensation.

When Ronald Reagan's acolytes were popularizing such talk in 1981, the economist John Kenneth Galbraith, whose sympathies lay on the other side of the aisle, offered this at a press conference: "The Republicans say that the rich don't work hard enough because we pay them too little, and the poor don't work hard enough because we pay them too much."

> **"Simplification:** The purported aim of the tax law enacted in 1986. Since that date the length of the tax code has doubled."

Mortgage deduction: A tax write-off that inflates the price of homes. In that fashion, it makes people who already own homes better off while making people who want to buy homes worse off by the same amount. By taking note of only the former effect, the real estate industry has persuaded Americans that erasing the deduction would make the country poorer.

Pass-through entity: A business organized as an LLC or partnership that has no tax liability of its own because the burden is passed through to the owners. In contrast, a small business organized as a corporation pays corporate tax, after which profits distributed to the owners incur tax again on the owners' individual returns.

Some recent proposals for a tax cut incorporate an enticing interaction of these two different ways to collect taxes: The pass-through would enjoy the favorable rate accorded small corporations, but pass through no further liability to the owners. Thus, by declaring themselves to be LLCs, high-paid doctors and trial lawyers could cut their tax bills in half.

Postcard return: With tax simplification, say the reformers, the IRS could fit the 1040 onto a postcard. But where on the postcard would you distinguish retirement accounts on which you had already paid tax from accounts on which you had not yet paid? What line would treat business assets that were only partly depreciated separately from those that had been fully expensed? How would the IRS fairly assess taxes on alimony, fringe benefits, college accounts not used for college, stock options and offshore holding companies? The postcard tax return would work fine, so long as it allows for up to 1,200 additional postcards to be attached.

Simplification: The purported aim of the tax law enacted in 1986. Since that date the length of the tax code has doubled.

Tax reform: The name applied by politicians to any tax change that they favor. In this sense, reforms are more common than you might think. Wolters Kluwer, the publisher of tax guides, keeps track of changes to the Internal Revenue Code. Since 2001 Congress has enacted 5,886 tax reforms.

Tax shelter: An investment product that reduces the tax on a high salary by having the salary earner lose money on investing.

Trickle down: The notion that rich people should get a break, on the theory that their money will trickle down to the rest of us in the form of tips.

Transfer pricing: The magic by which a cell phone designed in the U.S., made in China and sold in Germany gives rise to taxable income in none of those places because the profits are ascribed to patents residing in yet another place. Where, we don't always know. Could be inside a satellite hovering over the island of Vanuatu. Lest this sound too fanciful, take note of that curious Seventh Circuit case decided years ago against U.S. Gypsum. USG had a subsidiary that, as an element in an international tax minimizing scheme, bought gypsum rock as it fell from a chute on Canadian soil and then resold the rock at a profit before it landed in the hold of a ship below.

Voodoo economics: An epithet that the elder George Bush applied, while campaigning against Ronald Reagan for the Republican nomination, to Reagan's theory that tax cuts pay for themselves (see Laffer curve, above). The phrase disappeared from his speech after he became vice president.

Ways & Means: A House committee that gets the attention of lobbyists by debating possible ways to change the tax laws, thus providing the means for members of the committee to raise funds for reelection.

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