



1602 The Alameda # 100, San Jose, CA 95126  
 Tel: 408 548 7179 Fax: 408 890 4723 Email: [admin@amicpa.com](mailto:admin@amicpa.com)

## **Income Tax Changes 2018 Tax Year**

### **Federal Income Tax Filing Deadline**

The filing deadline for the tax year 2018 is Monday April 15, 2019.

### **Income Tax Rates**

In 2018, the Tax Cuts and Jobs Act introduced the most significant income tax changes in decades. Taxable incomes above the following thresholds now fall into the 37% bracket (the highest under the 2017 tax bill): Married Filing Separately (\$300,000), Unmarried Individuals (\$500,000), Head of Household (\$500,000), and Married Filing Joint Returns (\$600,000).

### **Capital Gains Tax**

ATRA also made several important changes to the treatment of long-term capital gains, and these were modified slightly by the Tax Cuts and Jobs Act:

<b>Rate</b>	<b>Single Taxpayers</b>	<b>Married Filing Jointly</b>	<b>Head of Household</b>	<b>Married Filing Separately</b>
0%	Up to \$38,600	Up to \$77,200	Up to \$51,700	Up to \$38,600
15%	\$38,600 to \$425,800	\$77,200 to \$479,000	\$51,700 to \$452,400	\$38,600 to \$239,500
20%	Over \$425,800	Over \$479,000	Over \$452,400	Over \$239,500

Unmarried individuals (Single) with income over \$200,000 and Married couples filing jointly with income over \$250,000 will also pay a 3.8% Medicare surcharge tax on investment income; thereby increasing the effective rate on capital gains to 23.8% (20% + 3.8%).

## Social Security and Medicare

As was the case in the past, all wages earned in a given year are taxed at the 1.45% rate for Medicare. In 2018, wages paid in excess of \$200,000 for Unmarried filers and in excess of \$250,000 for Married filers will be subject to an extra 0.9% tax.

Social Security tax remains at 6.20%, while the wage limit, or Social Security maximum, increases to \$128,400. The Cost of Living Adjustment (COLA) was 2.0% in 2018, increasing the SSI limit at \$2,788 per month.

## Unified Credits, Gift Tax and Estate Tax

ATRA also increased the estate and gift tax rate from 35 to 40%. The gift tax and estate tax exclusion continue to be indexed for inflation and increases to \$15,000 (up from \$14,000 in 2017) and increase to \$5.60 million respectively in 2018 for individuals and \$11.2 million for couples.

## Standard Deductions

According to the IRS, approximately two out of every three taxpayers claim the standard deduction on their income tax returns. In 2018, the standard deductions effectively doubled for most taxpayers, including:

- **Single (Unmarried Individuals):** \$12,000 (an increase of \$5,500)
- **Married Filing Separately:** \$12,000 (an increase of \$5,500)
- **Head of Household:** \$18,000 (an increase of \$8,450)
- **Married Taxpayers Filing Jointly and Qualifying Widow(er)s:** \$24,000 (an increase of \$11,000)

## Exemption Values

The amount deducted for each exemption claimed on a federal income tax return was eliminated in 2018 by the Tax Cuts and Jobs Act

## Foreign Earned Income Exclusion

Foreign Earned Income Exclusion for 2018. Under Section 911 of the US tax code, the Foreign Earned Income Exclusion for 2018 increases from \$102,100 in 2017 to \$104,100 in 2018.

## Alternative Minimum Tax (AMT) Exemptions

The 2018 exemption amounts are:

Single taxpayers:	\$70,300
Married taxpayers filing jointly:	\$109,400
Married filing separately:	\$54,700
Head of Household:	\$70,300

## Increase to Earned Income Credit

The earned income credit applies to working taxpayers that have income falling below certain thresholds. The qualification threshold depends on the number of persons in each family. The thresholds in 2018 to qualify for this credit include:

- **No Children:** earnings must be less than \$15,270, or \$20,950 if Married Filing Jointly.
- **One Child:** earnings must be less than \$40,320, or \$46,010 if Married Filing Jointly.
- **Two Children:** earnings must be less than \$45,802, or \$51,492 if Married Filing Jointly.
- **Three or More Children:** earnings must be less than \$49,194, or \$54,884 if Married Filing Jointly.

The tax credits themselves also increased in 2018, with the maximum received as indicated below:

- **No Children:** \$519
- **One Child:** \$3,461
- **Two Children:** \$5,716
- **Three or More Children:** \$6,431

## Coverdell ESA, Lifetime Learning and Hope Scholarship Credits

ATRA also eliminated the sunset provision for Coverdell Education Savings Accounts. Taxpayers with modified adjusted gross income less than \$110,000 (\$220,000 if filing a joint return), may be eligible to contribute to a Coverdell ESA. There are no limits on the number of separate Coverdell accounts that can be established for a beneficiary, but the total of all contributions to a single beneficiary cannot exceed \$2,000 each tax year.

The maximum Hope Scholarship Credit, available for the first two years of post-secondary education, remains at \$2,500 in 2018. This includes 100% of qualifying tuition and related expenses not in excess of \$2,000, plus 25% of those expenses that do not exceed \$4,000.

The maximum Lifetime Learning Credit is \$2,000 in 2018. The credit applies to 20% of the first \$10,000 of a taxpayer's out-of-pocket expenses for all students attending an institution of higher education. A taxpayer cannot claim the Hope Credit and the Lifetime Learning Credit in the same tax year for the same student.

In 2018, the taxpayer's modified adjusted gross income is used to determine the reduction in the amount of the Hope Scholarship and Lifetime Learning Credits. Reductions start for taxpayers with an AGI in excess of \$80,000, or \$160,000 for those filing joint returns for the Hope Credit. The income threshold for the Lifetime Learning Credit increases to \$57,000 or \$114,000 for those filing joint returns in 2018.

## Mileage Deduction Rates

Studies funded by the IRS continue to reflect the price of gasoline. The standard mileage deductions (or reimbursement rates) appear in the following table:

### *Mileage Deduction Rates 2018*

Category	Rate (January to December)
Business Miles	54.5 cents per mile
Charitable Services	14.0 cents per mile
Medical Travel	17.0 cents per mile

## Contributions to Retirement Accounts

The contribution limits for 401(k) as well as 403(b) plans increases to \$18,500 in 2018. Catch up contributions remain at \$6,000. The contribution limit for SIMPLE retirement plans remains at \$12,500, as does the catch-up contribution limit of \$2,500.

In 2018, the contribution limits for Traditional IRAs and Roth IRAs is \$5,500, with a catch-up contribution of \$1,000 for anyone age 50 or older by the end of the calendar year. The income limits for individuals willing to fund Traditional IRAs as well as Roth IRA plans increased modestly again in 2018. The income phase-out threshold for Roth IRAs now starts at \$189,000 for those filing joint returns, which is an increase of \$3,000. The phase-out threshold for taxpayers filing their returns as Head of Household or Single is now \$120,000, which is a \$2,000 increase over last year's value.

The income phase-out limits that apply to Traditional IRAs remain the same for those individuals covered by a retirement plan at work. The 2018 income phase-out limits start at \$101,000 for joint filers (an increase of \$2,000 from 2017), and \$63,000 for those with a filing status of Single or Head of Household (a \$1,000 increase from 2017).

## FBAR return due dates and extensions:

Below is a list of the new federal due dates generally applicable for 2018 tax returns (2019 filing season) and beyond.<sup>2</sup>

### **March 15, 2019 (September 16, 2019 with extension)**

- Form 1065, *U.S. Return of Partnership Income*; and
- Form 1120S, *U.S. Income Tax Return for an S Corporation*.

**Note:** This is the due date for the tax return and for the Schedules K-1 that the entity must provide to its owners.

**April 15 (Extensions Until Oct. 15, Unless Noted Below)**

- Form 1040, *U.S. Individual Income Tax Return*;
- Form 1041, *U.S. Income Tax Return for Estates and Trusts* (extensions until Sept. 30);
- Form 1120, *U.S. Corporation Income Tax Return* (extensions until Sept. 15); and
- FinCEN Form 114, *Report of Foreign Bank and Financial Accounts* (FBAR).

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