

Tax Minimizers of Oregon Inc.

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ClientAdvisor

W I N T E R / S P R I N G 2 0 1 8

A new tax act calls for new tax moves

A monumental new tax law enacted by Congress in late 2017 referred to as the “Tax Cuts and Jobs Act” (TCJA) includes some of the most sweeping tax changes seen in more than 30 years.

The TCJA cuts tax rates for individuals and businesses, modifies or repeals a slew of deductions, creates new tax opportunities and introduces numerous pitfalls. Generally, individual provisions are scheduled to sunset after 2025, while most business provisions in the new act are permanent.

It will take time for the IRS to sort out all the technicalities, but here are seven key changes – and what you can do about them:

1. Standard deduction vs. itemized deductions. The TCJA doubles the standard deduction to \$12,000 for single filers and \$24,000 for joint filers, while eliminating personal exemptions. It also repeals or modifies numerous itemized deductions, but generally keeps the deduction for charitable donations.

Tax tip: In the past, the decision to itemize was often a no-brainer for taxpayers who own homes or live in a high-tax state, but that’s no longer the case. You’ll now need to determine if it’s better for you to claim the higher standard deduction, and you’ll need to assess your withholdings according to the law changes.

2. Pass-through entities. Businesses treated as pass-through entities for tax purposes (partnerships, S corporations and sole proprietorships) may be entitled to deduct 20 percent of their qualified business income. Guardrails have been put into place to prevent abuse, including a phaseout for most service professionals with income above \$157,500 (\$315,000 for joint filers).

Tax tip: To maximize this tax benefit, try to stay below your threshold when possible, perhaps deferring taxable income at the end of the year. The benefit phases out above the thresholds and depends on your type of business, your wages and value of capital assets.

3. Medical and dental expenses. The deduction for medical and dental expenses has been preserved for those who itemize deductions. The threshold for deducting these expenses is temporarily rolled back from 10 percent to 7.5 percent of adjusted gross income (AGI). This reduction applies for 2017 and 2018.

Tax tip: Before you file your 2017 return, scour your records for expenses that can push you over the 7.5 percent-of-AGI mark. And schedule non-emergency medical and dental visits before year-end to increase your deduction for 2018.

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Everyday Advice

Few of us ever test our powers of deduction, except when filling out an income tax form.

– Laurence J. Peter, author

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