What to Expect When the New Tax Reform Bill Takes Effect... (Part 2)

New Tax Law, Part 2 (Continued from Last Month)

1. Those who are self-employed may qualify for a sweet tax break under the new law. If your business qualifies as a pass-through entity, such as a sole proprietorship or LLC, you may be able to shield 20% of that income from taxes using a retirement plan.

2. Itemize or Take the Standard:

For individuals, the standard deduction climbs to $12,000, from $6,500 for 2018. For married taxpayers filing jointly, the standard deduction rises to $24,000, from $13,000.

Seniors age 65 or older retain the extra standard deduction of $1300 if married or $1600 if single. For a married couple both 65 or older, their standard deduction climbs to $26,600. That's a big number!

3. Because of new higher standard deduction, you should consider:

Bunching deductions to take advantage of itemizing in one year and use the standard deduction the next. It's an old strategy that has greater meaning now. If you give $15,000 a year to charity, for instance, donate $30,000 in one year and itemize, and skip donations and take the standard deduction the next year. Bunching deductions could offer an extra advantage if it pulls your taxable income to a level that reduces the tax rate on capital gains.

4. Charitable Giving

The law allows traditional IRA owners age 70 1/2 or older to directly transfer up to $100,000 from a traditional IRA to a qualified charity. The distribution can satisfy your required miniumum distribution, killing two birds with one stone. Better yet, the income doesn't show up in AGI which could help rein in taxes on Social Security benefits or avoid Medicare premium surcharges.

5. Gifting to the Grandkids

The new law makes several changes that could affect how you give money to the grandchildren. First off, the law expands the use of 529 education savings plans. Besides college costs, you can now use up to $10,000 per year per child tax-free for private or parochial elementary and high school costs. Although there is no federal tax deduction for 529 contributions, many states offer a state tax break.

Taxpayers can now also roll 529 money into an ABLE account to help provide a financial cushion for people with special needs, while still maintaining their eligibility for government benefits.

You can frontload a 529 account with five years' worth of gifts protected by the annual $15,000 gift tax exclusion. So a grandparent could gift $75,000 to a grandchild's 529 account in one fell swoop.

6. Retirement Plans

The new law provides some relief for workers who borrow from their 401(k) plans, Borrowers who leave their company can now wait until the tax filing deadline of the year they left the job to put the unpaid balance into an IRA. That gives these borrowers more time to avoid having the loan balance turn into a taxable distribution.