

RECENT CHANGES IN TAX LAWS FOR HOMEOWNERS AND CHARITABLE GIVING

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- Changes affecting individual taxes
- Changes in charitable giving
- Tax implications on sale of personal residences

CHANGES AFFECTING INDIVIDUALS

- Federal changes –
 - Tax Cuts and Jobs Act
 - Expiring tax revisions
- New Jersey state changes

TAX CUTS AND JOBS ACT

- Lower Tax Brackets (from 39.6% to 37%)
- Doubled standard deduction
- Eliminate personal exemptions
- Eliminate Phase Outs
- Higher AMT exemption
- Cap SALT at \$10,000
- ACA penalty repeal for 2019
- Eliminate 2% miscellaneous deductions
- Lower home mortgage interest deduction
- Alimony rules for 2019+

2018 TAX RATE CHANGES

| | Single | Married |
|-----|-----------------------|-----------------------|
| 10% | 0 - \$9,525 | 0 - \$19,050 |
| 15% | \$9,526 - \$38,700 | \$19,051 - \$77,400 |
| 22% | \$38,701 - \$82,500 | \$77,401 - \$165,000 |
| 24% | \$82,501 - \$157,500 | \$165,001 - \$315,000 |
| 32% | \$157,501 - \$200,000 | \$315,001 - \$400,000 |
| 35% | \$200,001 - \$500,000 | \$400,001 - \$600,000 |
| 37% | \$500,001 - | \$600,001 - |

STANDARD DEDUCTION

| | 2017 | 2018 |
|--------------------------------|----------|----------|
| Married | \$12,700 | \$24,000 |
| Head of Household | \$9,350 | \$18,000 |
| Single | \$6,350 | \$12,000 |
| Married filing jointly over 65 | \$1,250 | \$1,300 |
| Others over 65 | \$1,550 | \$1,600 |

PERSONAL EXEMPTIONS/PHASE OUTS

| | 2017 | 2018 |
|--------------------------------------------------------------|---------------------|------|
| Exemptions | \$4,050 | 0 |
| Phase-out of Exemptions & Deductions (Pease Limits) | \$261,500/\$313,800 | 0 |

AMT THRESHOLDS

| | 2017 | 2018 |
|------------------------|----------|-----------|
| Married filing jointly | \$84,500 | \$109,400 |
| Single | \$54,300 | \$70,300 |

No adjustment for medical, mortgage, misc. or Pease Limits

SALT CAP AT \$10,000

- Hotly contested by NJ and other high tax states
 - Local Property Tax
 - State Income Tax
 - State Sales Tax
 - Applies equally to single and MFJ taxpayers
- Prepaid 2018 Real Estate Tax; only NJ 2018 Q1 and Q2
- No deduction for foreign property taxes

AFFORDABLE CARE MANDATE

- Requirement to carry health insurance survives past 2018
- Penalty for not having health insurance reduced to \$0 after 2018
- Still need to “check the box” on 2018 and 2019
- Medicare is considered qualifying health insurance for ACA

2% MISCELLANEOUS DEDUCTIONS

- **Eliminated**
 - Tax Return Prep Fees
 - Investment expenses, including advisor fees
 - Employee expenses such as auto miles, union dues, safety equipment, uniforms, insurance

HOME MORTGAGE INTEREST

- New rules for post 12/15/17 mortgages
 - \$750,000 limit for tax deduction
- New rules for Home Equity Loans
 - Not deductible
 - No grandfathering
- New rules for refinance of old mortgages
 - Can't exceed original cost to buy or build
- New rules for second home
 - Must have its own mortgage

2019 ALIMONY

- Starting in 2019 alimony no longer tax deductible on **new or renegotiated** agreements
- Pre 2019 alimony is grandfathered, still deductible and taxable
- Child support was never deductible or taxable

EXPIRED FEDERAL TAX LAWS

Commonly
called
“Extenders”

GONE BUT NOT FORGOTTEN

- Mortgage debt forgiveness
- Mortgage Insurance Premiums (MIP)
- Tuition and fees deduction
- Residential energy improvements
 - HVAC
 - Water heater
 - Windows and doors

NEW JERSEY UPDATE

NJ CHANGES 2017

- added Veteran deduction of \$3,000
 - Only applies to veteran, NOT surviving spouse

NJ CHANGES 2018

- Property tax deduction increased to \$15,000
- Sales tax on out of state purchases
 - Wayfair Supreme Court Case
- Millionaires tax
 - Income over \$5 million new 10.75% rate
- NJ tax amnesty starting Nov. 15 – Jan. 15, 2019

CHARITABLE GIVING STRATEGIES

How to
maximize your
contributions

CHARITABLE CONTRIBUTION TYPES

- Cash
- Appreciated securities
- Other non-monetary items
- Private foundation
- Donor advised fund

CASH

(CHECKS, CREDIT CARDS, ETC.)

- Always acceptable
- Need a tax record for all contributions
- Single contribution over \$250 requires a written acknowledgment from the charity

APPRECIATED SECURITIES

- Stocks, bonds, marketable securities
- Not strictly cash, but appraisal not needed
- Advantage is taxpayer gets the full tax deduction for the current value without triggering capital gain to sell and contribute

NON-CASH DONATIONS

■ Types

- Cars, boats
- Art
- Musical Instruments
- Clothing and household goods

■ Guidelines

- Not all organizations will accept non-cash donations
- Taxpayer may need an appraisal if value is over \$5,000 (at taxpayer cost)
- Written acknowledgment (no drop boxes)
- If donation is over \$500, taxpayer needs details

MAXIMIZING TAX DEDUCTION

MFJ BOTH OVER 65

| Standard Deduction | | Itemized Deduction | |
|--------------------|----------|--------------------|----------|
| Standard | \$24,000 | SALT | \$10,000 |
| Both over 65 | \$2,600 | Mortgage | \$0 |
| | | Charity | \$16,600 |
| Total | \$26,600 | Total | \$26,600 |

**Charitable deductions would need to exceed \$16,600
for a tax benefit**

MAXIMIZING TAX DEDUCTION

SINGLE OVER 65

| Standard Deduction | | Itemized Deduction | |
|--------------------|----------|--------------------|----------|
| Standard | \$12,000 | SALT | \$10,000 |
| Over 65 | \$1,600 | Mortgage | \$0 |
| | | Charity | \$3,600 |
| Total | \$13,600 | Total | \$13,600 |

Charitable deductions would need to exceed \$3,600 for a tax benefit

GIVING STRATEGY

- Bunch contributions in one tax year
- Qualified Charitable Distribution from IRA
- Give to a Private Foundation
- Give to a donor advised fund

BUNCH CONTRIBUTIONS

Make larger donations every other year to cross the standard deduction threshold of \$16,600 or \$3,600.

QUALIFIED CHARITABLE DISTRIBUTION FROM AN IRA (QCD)

- Over age 70.5 with a required minimum distribution (RMD)
- Inform IRA custodian to make a direct transfer to charity
- Counts towards RMD
- Does not count on your tax return as either income OR charity
- Receive brownie points (and letter) from charity

PRIVATE FOUNDATION

- Usually established by families, need to hire an investment advisor, needs IRS approval
- Used to accumulated current tax deductible donations in high income years (30% limit)
- Board determines which charities to support, often a Thanksgiving table discussion over time
- Required to distribution about 5% of assets each year, small excise tax (1%-2%) on income
- Has to file an annual tax return – 990PF

DONOR ADVISED FUND

- Works like a private foundation, without the overhead, but inside of a public charity
- Setup a gift to a public charity, tax deductible up to 60% of income now
- Give charity your “Advice” on how to distribute income and principal over time
- Public charity will handle tax filing, investing and long term decisions

SALE OF RESIDENCE

Tax Rules on
Sale and the
New Jersey
Exit Tax

PRIMARY RESIDENCE

Residency Text:

Lived in home for 2 out of the last 5 years

Capital gain tax exclusion:

\$250,000 per person (\$500,000 on joint returns)

Allowed to use exclusion once every two years, no requirement to “reinvest” gains

DETERMINING CAPITAL GAIN

Tax Basis =

Cost of House:

+Improvements:

Roof, HVAC, Deck

Pool, Driveway

+Selling costs:

Fixing up, RE commissions

+Inheritance:

Date of Death Values

DETERMINING CAPITAL GAIN

Capital Gain =

Selling Price (often reported to IRS)

-Cost basis

Exclude \$250,000/\$500,000 (Single/MFJ)

Pay tax on remainder

Special rules for surviving spouse if home is sold within two years

NON-PRIMARY RESIDENCES

- Same computation as primary residence to determine gain on sale
- No \$250,000/\$500,000 exclusion
 - the whole gain is taxable as long term capital gain
 - No tax deduction if there is a loss
- May have non-resident state income tax consequences

EXIT TAX

- Many states, including NJ, impose a withholding tax on real estate sales by non-residents
- Tired of non-residents “forgetting” to file a tax return
- NJ requires either flat 2% of selling price or 10.75% (highest rate) of expected gain

DEED TRANSFER TAX

- All deeds in NJ are subject to a transfer tax except in very limited related party transactions
- Rate is set by deed value
- Senior citizens (age 62+) receive a partial exemption
- NJ imposes a Mansion tax of 1% of selling price over \$1,000,000
- Transfer taxes
 - usually paid by the seller
 - mansion taxes are sometimes paid by the buyer, but this is a NJ custom.
- Other parts of the country follow other customs
 - A NJ seller who buys in Virginia, will pay the tax on both transactions
 - In Delaware the tax is usually split between buyer and seller

PSRC 2018 FALL CONFERENCE

New Tax Laws
Charitable
Giving in the
New Era

Tax impact of
Selling Real
Estate

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