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Tax Reform and What it Means for Expats

If you are a US taxpayer living abroad, tax reform did not make any changes to the foreign earned income exclusion or foreign tax credits for individual filers. There were many other changes for individual filers though and we suggest you read our letter "**Tax Reform and What it Means for Your Personal Taxes"** located below this letter.

There were some major changes for US business owners of non-US busines, so if you plan to open a business overseas please contact us ahead of time so we can refer you to an international tax attorney so you can take these new rules into account as you design your business entity and ownership structure.

The biggest change under tax reform that we anticipate affecting our expat clients is the elimination of the moving expense deduction (fyi - doesn't apply in the case of active duty military). Here's an example:

Sara lives in Singapore and accepts a new job in New York. Her new employer agrees to pay her 10K for the moving of her household goods from Singapore to New York. The employer now needs to list the 10K as income to her on her W2. (Or if the other way around and Sara was moving to Singapore, she would need to list the moving expenses paid as income on her tax return).

Prior to tax reform, this would not be a problem because Sara could tell us that she had 10K of moving expenses and we would report them as a moving expense deduction on her tax return (effectively wiping out the 10K of income that was reported). Now since the moving expense has been eliminated, Sara will have to pay taxes on the 10K of income that she never really received in cash, but instead was used to pay her moving expenses.

So what does this mean? We recommend you discuss this with your employer before you finalize any moving expense agreements and request that your employer gross up your moving expenses to account for the taxes. In Sara's case she may want to ask for 13K instead of 10K. 10K will pay for the moving expenses, and the additional 3K will help cover the fed and state taxes Sara will owe on her 10K of moving expenses since they are no longer deductible.

Best,

The Krozel Capital Team

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Tax Reform and What it Means for Your Personal Taxes

President Trump, when he was on the campaign trail, promised that he would push for tax reform legislation. On Dec, 22, 2017, he signed The Tax Cuts and Jobs Act into law, the first major tax reform in 31 years. The new law makes many changes to the tax code. Every taxpayer is impacted. A highlight of the changes follows:

Tax rates. Tax rates are reduced. The top rate is reduced from 39.6% to 37%. Lower rates are also reduced.

Exemptions and the child tax credit. The deduction for personal exemptions is eliminated. An expanded child tax credit will help make up for the loss of personal exemptions for some families. The credit is increased to $2,000 (from $1,000) for qualifying children under 17. For children 17 and older and for other dependents, the credit is $500.

Standard deduction. The new tax reform law doubles the standard deduction. The higher standard deduction ($12,000 for singles, $18,000 for heads of household, and $24,000 for married filing joint) means that fewer taxpayers will benefit from itemizing deductions.

Itemized deductions. Itemized deductions for all state and local taxes, including property taxes, are capped at $10,000. The limit on mortgage debt for purposes of the mortgage interest deduction is reduced from $1,000,000 to $750,000 for loans made after Dec. 15, 2017. Loans made before Dec. 15, 2017 are grandfathered at the $1,000,000 debt limit. The interest on home equity borrowing is no longer deductible. The threshold for medical expense deductions is lowered to 7.5% of adjusted gross income (from 10%) for tax years 2017 and 2018. Miscellaneous itemized deductions subject to the 2% of AGI limitation are not allowed. Miscellaneous itemized deductions lost because of the new law include employee business expenses, investment adviser fees, union dues, and tax preparation fees. Personal casualty losses are not allowed unless the losses were suffered in a federally declared disaster area.

Alimony. The new tax reform law eliminates the alimony deduction for agreements signed after Dec. 31, 2018. Alimony income is not taxable for agreements signed after Dec. 31. 2018. There is no change to the law for agreements signed before Jan. 1, 2019.

Moving expenses. The new tax reform law eliminates the moving expense deduction and makes employer reimbursement of moving expenses taxable to the employee beginning in 2018.

AMT. The new tax reform law temporarily increases the alternative minimum tax (AMT) exemption for tax years 2018 through 2026. The increase in the exemption, as well as the elimination of major tax preferences (exemptions, state taxes above $10,000 and miscellaneous itemized deductions), means that fewer people will be subject to AMT under the new law.

Education. The new tax reform law modifies qualified tuition programs - §529 plans. Funds in the 529 plan can now be used to pay for grades K to 12 private school tuition. The above-the-line deduction for college tuition expenses was renewed in later legislation, but only for 2017. The American Opportunity and the Lifetime Learning credits continue to be available.

Roth IRA conversions. The new tax reform law repeals the special rule permitting recharacterization of Roth IRA conversions. A conversion of a traditional IRA to a Roth IRA may still be advisable, but once the conversion is completed, it can't be undone.

These are just **a few** of the changes included in the Tax Cuts and Jobs Act. Your 2018 taxes will be affected. That's guaranteed by the scope of the changes. The degree of impact depends on your personal situation and as we complete your taxes for 2018 we will be happy to answer any questions you may have.

Best,

The Krozel Capital Team