Supplement to J. K. Lasser's 1,001 Deductions and Tax Breaks 2018

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Since the publication of the book, the Tax Cuts and Jobs Act of 2017 (referred to here as the TCJA) as well as other legislation have occurred, impacting 2017 returns. In addition, there have been court cases and IRS pronouncements that also affect 2017 returns as well as planning for taxes in 2018.

Here are the key developments, some of which can apply to your 2017 return while others impact your 2018 withholding and estimated taxes. The changes presented in this Supplement are tied to the chapters in the book. It should be noted that a more complete explanation of the changes made by the TCJA for 2018 and beyond will be reflected in the 2019 edition of this book. The cost-of-living adjustments for 2018 could be revised based on changes to the Chained Consumer Price Index for All Urban Consumers ("C-CPI-U") that the TCJA requires for this purpose. Don't take the numbers I've listed here as fact until the IRS confirms them; any changes will be reflected in a revised Supplement.

Introduction

Above-the-line deductions. The above-the-line deduction for educator expenses of up to $250, which can be adjusted for inflation, will remain unchanged for 2018. The deduction for tuition and fees, which expired at the end of 2016, was extended for 2017. Whether it will be extended for 2018 is unclear at this time.

The moving expense deduction does not apply starting in 2018, other than for those in the Armed Forces.

The alimony deduction remains for 2018. However, for alimony paid under decrees and agreements made or changed after 2018, the deduction won't apply (and the recipient won't be taxed on alimony payments).

Standard deduction amounts. The basic standard deduction amounts have been nearly doubled by the TCJA starting in 2018:

- Married filing jointly and surviving spouses: $24,000 (up from $12,700).
- Heads of households: $18,000 (up $9,350).
- Singles and married filing separately: $12,000 (up $6,350).

Additional standard deduction amounts. For 2018, the additional standard deduction amount for age and/or blindness increases due to cost-of-living adjustments to

$1,600 for single filers and heads of households, and at $1,300 for married filers (filing jointly or separately) and surviving spouses.

Overall limit on itemized deductions. On 2017 returns, high-income taxpayers lose a portion of their itemized deductions due to a phase-out as explained in the book. For 2018, this phase-out no longer applies.

Chapter 1—Your Family

Personal and dependency exemptions. While the exemption amount remains at $4,050 for 2017 returns, all personal and dependency exemptions are eliminated for 2018 returns. However, the definition of "dependent" continues to apply in 2018 for various other purposes.

Child tax credit. For 2018, the credit is doubled to $2,000 per qualifying child under the age of 17. The income phase-out levels are increased greatly to $400,000 for joint filers and $200,000 for other filers. Of the $2,000, up to $1,400 is refundable. The earned income threshold for the refundable portion of the credit is reduced to $2,500. There is also a $500 nonrefundable credit for a qualifying dependent other than a qualifying child.

Earned income credit. The earned income credit amounts, including adjusted gross income limits, have been increased for 2018.

Dependent care credit. There have been no changes in this tax credit.

Adoption credit. The adoption credit limit increases to $13,840 for 2018 (up $270 from 2017). The modified adjusted gross income limits on eligibility for the credit have also been increased slightly for 2018.

Chapter 2—Medical Expenses

Despite Congressional attempts in 2017 to repeal and replace Obamacare, the rules basically remain unchanged for 2017 and 2018 returns.

Premium tax credit. This refundable tax credit is designed to help individuals pay for the cost of mandated health coverage for themselves and their dependents. To be eligible for the premium tax credit, your household income must be at least 100%, but no more than 400% of the federal poverty line for your family size. Eligibility for the credit in 2018 is based on 2017 federal poverty guidelines for the 48 contiguous states and District of Columbia as shown in the following table.

Persons in the family/household	Poverty guideline (100%)
1	$12,060

2	$16,240
3	$20,420
4	$24,600
5	$28,780
6	$32,960
7	$37,140
8	$41,320
More than 8	Add $4,180 for each additional person

*The guidelines are higher in Alaska and Hawaii

Individual health care mandate for 2017 and 2018. The national average bronze plans for 2017 have been announced. The IRS also provided guidance for individuals calculating whether they qualify for an exemption from the penalty based on affordability. Usually, this is done using the cost of a bronze level plan, but in some locations there is no bronze level plan. The IRS said that if there is no bronze level plan in the area, you should use the lowest level silver plan to determine if you qualify for the affordability exemption.

Individuals who fail to maintain minimum essential health coverage may be subject to a tax penalty in 2018. The penalty amount for 2018 is unchanged at the *higher* of:

- 2.5% of your household income not to exceed the total yearly premium for the national average price of a bronze plan sold through a Marketplace.
- $695 per adult ($347.50 per dependent under age 18) in your household, up to a maximum of $2,085.

The penalty for not having minimum essential coverage or an exemption from this requirement is eliminated starting in 2019.

The IRS has said that it will not accept an electronically-filed 2017 income tax return for processing unless it indicates that the filer has minimum essential health coverage, an exemption from coverage, or is paying the penalty.

Itemized medical expenses. The adjusted gross income (AGI) floor for deducting itemized medical expenses in 2017 and 2018 is 7.5%. This floor applies for all taxpayers (not merely those age 65 and older as in the past). Starting in 2019, the AGI floor will be 10% of AGI for all taxpayers.

For 2018, the IRS medical expense mileage rate is 18¢ per mile (up from 17¢ per mile in 2017).

Long-term care coverage. The portion of long-term care insurance premiums that are treated as a deductible medical expense has increased in 2018 for each age group. The cap for those who are age 70 and older in 2018 is $5,200.

Flexible spending arrangements (FSAs). In 2018, the maximum salary contribution to an FSA is capped at $2,650 (up from $2,600 in 2017).

Health savings accounts and Archer medical savings accounts. The 2018 contribution limits for HSAs have been increased slightly.

Accelerated death benefits. For chronically ill individuals, the daily dollar limit excludable from gross income for 2018 is unchanged at $360; excess amounts are taxable to the extent they exceed actual long-term care costs.

ABLE accounts. This type of savings account is designed to pay certain costs of a disabled individual without costing him or her eligibility for government assistance. Starting in 2018, funds can be rolled over tax free from a 529 plan to an ABLE account, up to the annual contribution limit ($15,000 in 2018). As of January 2018, ABLE accounts have gone live more than 30 states.

Medicare. About 70% of beneficiaries, those who fall under "hold harmless" protection, are paying a little more (the amount of their Social Security benefit increase) for Part B in 2018; premiums are about $130 per month (on average) compared with $109 per month in 2017. The 30% not held harmless pay the full standard monthly premium of $134 per month, plus possibly the surcharge for higher-income taxpayers. The following tables (one for Part B and one for Part D) show the 2018 surcharges for higher-income taxpayers, which is based on modified adjusted gross income (MAGI) in 2016.

Part B Premiums for 2018:

2016 MAGI for joint filers	***2016 for other filers****	***Part B premium surcharge***	***Total monthly Part B premium for 2018***
Up to $170,000	Up to $85,000	Zero	About $130 if held harmless; $134 if not held harmless
$170,001 to $214,000	$85,001 to $107,000	$53.50	$187.50

$214,001 to $267,000	$107,001 to $133,500	$133.90	$267.90
$267,001 to $320,000	$133,501 to $160,000	$214.30	$348.30
$320,001 and higher	$160,001 and higher	$294.60	$428.60

*Married persons filing separately but who do not live apart for the entire year are subject to a monthly premium of $428.60 if 2016 MAGI was over $85,000.

Part D premiums for 2018:

2016 MAGI for joint filers	*2016 for other filers**	*Total monthly Part D premiums for 2018*
Up to $170,000	Up to $85,000	Plan premium (no surcharge)
$170,001 to $214,000	$85,001 to $107,000	$13.00 + plan premium
$214,001 to $267,000	$107,001 to $133,500	$33.60 + plan premium
$267,001 to $320,000	$133,501 to $160,000	$54.20 + plan premium
$320,001 and higher	$160,001 and higher	$74.80 + plan premium

*Married persons filing separately but who do not live apart for the entire year are subject to a monthly premium of $74.80 if 2016 MAGI was over $85,000.

Chapter 3—Education Costs

American opportunity credit. There is no modified adjusted gross income limit change in 2018 for eligibility to claim the credit.

Lifetime learning credit. The modified adjusted gross income limits on eligibility to claim the credit have been increased slightly for 2018 ($57,000, or $114,000 for joint filers).

Tuition and fees deduction. The above-the-line deduction for tuition and fees of up to $4,000, which expired at the end of 2016, has been extended for 2017. It is unclear whether it will be extended again for 2018.

Student loan interest. There are no changes in 2018 to the modified adjusted gross income (MAGI) limits for eligibility to claim the deduction. For singles, the 2018 phase-out starts at $65,000 and is completed at $80,000. The MAGI phase-out for joint filers starts at $135,000 and is completed at $165,000.

Congress has not yet enacted any student loan relief measures. There are bills pending that would create limited tax-free treatment for employer-repayments of employees' student loans.

Interest on U.S. savings bonds. The modified adjusted gross income limits on eligibility to claim the exclusion for interest on bonds redeemed to pay qualified higher education costs have been increased for 2018.

Qualified tuition programs (529 plans). Starting in 2018, tax-free distributions up to $10,000 per year can be taken to pay the tuition of a beneficiary at primary or secondary school (private or religious).

ABLE accounts. The annual contribution limit for 2018 is $15,000 (up from $14,000 in 2017). Starting in 2018, funds in 529 plans can be rolled over tax free to an ABLE account up to the annual contribution limit ($15,000 in 2018).

Chapter 4—Your Home

Mortgage interest. Starting 2018, no deduction is allowed for home equity debt. Also, for mortgages obtained on or after December 15, 2017, only interest on debt up to $750,000 ($375,000 for a married person filing separately) to buy or build a home or second residence can be claimed.

Mortgage insurance. The ability to treat mortgage insurance as deductible mortgage interest, which expired at the end of 2016, has been extended for 2017. Whether it will be extended again for 2018 is uncertain.

Cancellation of mortgage debt. The exclusion for income resulting from the cancellation of debt up to $2 million on a principal, which expired at the end of 2016, has been extended for 2017. Whether it will be extended again for 2018 is uncertain.

Minister's housing allowance. A U.S. district court has ruled that the housing allowance violates the Establishment Clause of the U.S. Constitution, which prohibits the government from establishing a religion. It enjoined the government from allowing the use of the allowance, but stayed the injunction for 180 days after all appeals have been exhausted. The government has filed a notice of appeal, but no decision from the appellate court will be issued until 2018 or later.

Moving expenses. No deduction can be claimed for work-related moving expenses in 2018.

Energy improvements. The residential energy property credit for making certain improvements, such as adding insulation or installing energy-efficient windows and exterior doors, which expired at the end of 2016, has been extended for 2017. Whether it will be extended again for 2018 is uncertain.

Disaster rules for casualties to your home. See Chapter 13.

Chapter 5—Retirement Savings

Traditional IRAs and Roth IRAs. There is no change to the 2018 basic contribution limit of $5,500 or to the additional “catch-up” contribution limit of $1,000 for those who are at least 50 years old by the end of 2018. The modified adjusted gross income (MAGI) limits on eligibility to make deductible contributions to a traditional IRA are increased slightly for 2018, as are the MAGI limits for Roth IRAs.

The ability to undo a Roth IRA conversion by re-characterizing it as a traditional IRA through October 15th no longer applies. A conversion from a traditional IRA to a Roth IRA on or after January 1, 2018, is permanent. However, a 2017 conversion can still be unwound through October 15, 2018.

401(k) and similar plans. The 2018 elective deferral contribution limit increases to $18,500 (up from $18,000 in 2017). The additional contribution limit for those who are age 50 or older by the end of the year for 2018 is at $6,000.

Self-employed retirement plans. Contribution, benefit, and other limits for these plans for are increases slightly for 2018. For example, the contribution limit for profit-sharing plans in 2018 is $55,000 (up from $54,000 in 2017).

Simplified Employee Pension plans (SEPs). Contribution limits for these plans for 2017 is $55,000 (up from $54,000 in 2017). The earnings threshold for including an employee in a SEP is unchanged at $600.

Savings Incentive Match Plans for Employees (SIMPLEs). The 2018 contribution limit for SIMPLEs and the additional contribution limit for those age 50 or older by the end of the year are $12,500 and $3,000 respectively (unchanged from 2017).

MyRAs. These accounts, which were like mini-Roth IRAs, were discontinued by the Treasury. Deposits to existing accounts were no longer accepted as of December 4, 2017. Those with accounts who wish to continue saving for tax-free income should roll over the funds to a Roth IRA with a bank, brokerage firm, mutual fund, or other Roth IRA provider.

Retirement saver’s credit. The MAGI limits on eligibility to claim the retirement saver’s credit for contributions to IRAs, 401(k)s, and similar plans have been increased for 2018.

A person who contributes to ABLE accounts may be able to qualify for this tax credit in 2018.

Custodial fees. A final rule from the Department of Labor impacting brokers' duties with respect to retirement plans went into effect on June 9, 2017, but full implementation of the rule is set for July 1, 2019. This rule impacts how brokerage firms charge for managing retirement accounts and IRAs.

Disaster victims. See Chapter 13 for a discussion on the special rules for plan loans. Special rules also apply to hardship distributions for victims of certain disasters in 2017. "Hurricane distributions" after set dates and "California wildfires" after October 8, 2017, and before January 1, 2019, that are made to a participant with a principal residence in a hurricane disaster area are not subject to the 10% early distribution penalty. Income from the distribution is included in income ratably over a 3-year period (unless the participant chooses to report it all in the year of the distribution). Distributions before February 28, 2018, can be re-contributed in one or more contributions within 3 years beginning from the date of the distribution. A distribution taken after February 28, 2017, to buy or build a home can recontribute it if the purchase or construction was canceled because of the hurricane.

Chapter 6—Charitable Giving

Contribution limit. Cash donations made for relief for victims of Hurricanes Harvey, Irma, and Maria through December 17, 2017, are not subject to the 50%-of-adjusted-gross-income (AGI) limit. In effect donations can be deducted up to 100% of AGI. Also, these deductions are not subject to the phase-out on itemized deductions.

Changes for 2018 include:

- The AGI cap on contributions is raised to 60% (up from 50%) for cash contributions.
- No deduction is allowed for donations that entitle you to get college athletic seating rights.
- The phase-out of itemized deductions (including charitable deductions) does not apply.

Real estate donated for conservation purposes. The Tax Court has issued a number of decisions clarifying some of the requirements for a deduction for a conservation easement:

- *The gift of the easement must be in perpetuity (forever).* In one case, the fact that the charity would not have an absolute right to the proceeds because the mortgage on the property was not subordinated to the easement. In another case, "minor tweaks" in the easement did not violate the perpetuity rule where no benefit would return to the donor.

- *There must be a contemporaneous written acknowledgment.* A deed for the easement can service as a contemporaneous written acknowledgment.
- *The 100% deduction applies to a qualified farmer.* Being a farmer doesn't necessarily make the person a qualified farmer. More than 50% of gross income must be from farming (e.g., selling crops), and this does not include gain from the sale of farmland.
- *The gift must be properly valued.* If the value of the gift is overstated by more than 200%, a 40% gross valuation misstatement penalty applies. That's what happened to an individual who's claimed amount of an easement was $970,000 was actually valued at zero (although the government agreed it was $30,000). The claimed value of $970,000 is more than 200% of $30,000.

Donating unused leave time to an employer's program. Usually, if you donate vacation, sick, or personal days to an employer's leave-based donation program at work, your donation is taxed as compensation. However, for programs benefiting victims of the Hurricanes Harvey, Irma, and Maria, and the California wildfires in 2017, you aren't taxed on your donations to the program. However, you cannot claim a charitable contribution deduction (your employer gets the deduction when cash donations are made to a charity providing relief for these specified disasters).

Chapter 7—Your Car

Business use of your personal car. The IRS announced that the standard mileage rate, used in lieu of deducting the actual costs of business driving, is 54.5¢ per mile in 2018 (up from 53.5¢ per mile in 2017).

The dollar limits on depreciating passenger cars, trucks, and vans placed in service after 2017 are increased to $10,000 for the year in which they are placed in service (plus an additional $8,000 if bonus depreciation applies), $16,000 for the second year, $9,600 for the third year, and $5,750 for each succeeding year.

The $25,000 dollar limit on first-year expensing for a heavy SUV (exempt from the above dollar limits) will be indexed for inflation after 2018.

Electric drive vehicles. The credit for 2-wheel vehicles which expired at the end of 2016, has been extended for 2017. Whether it will be extended again for 2018 is uncertain.

The credit for 4-wheel vehicles continues for 2018 and is unchanged. There had been a legislative proposal to repeal it, but this wasn't included in the TCJA.

The credit is limited or phased out entirely once a manufacturer has sold more than 200,000 electric drive vehicles. It is anticipated that GM and Tesla could exceed this threshold in 2018, so check with the manufacturer before buying their vehicle if you are factoring in a credit toward to purchase price.

Chapter 8—Investing

Impact of TCJA on investing. The new law did not change the tax rate rates on net capital gains and qualified dividends; they remain zero, 15%, and 20%. However, the income points at which these rates apply have changed slightly. Essentially, for 2018 through 2025, the zero rate applies if you are in the 10% or 12% tax bracket; the 20% rate applies if you are in the 37% tax bracket (the breakpoint for the 20% rate actually falls below the 37% bracket). The vast majority of taxpayers are subject to the 15% rate on their net capital gains and qualified dividends.

There had been a proposal to eliminate the opportunity of an investor to designate the shares being sold when shares were acquired at different times and less than all of the holdings were sold ("specific identification method"). It had been proposed to require the use of the first-in, first-out (FIFO) method, but this proposal was not adopted. If you don't use the specific identification method (or average cost method for mutual fund shares), then FIFO is the default method that is used to determine the basis of shares sold.

Margin interest. TCJA did not change the rules for deducting margin interest and other investment-related interest for 2018. However, because of the increased standard deduction and the elimination of and restriction on certain other itemized deductions, you may prefer not to itemize. This means that margin interest effectively becomes nondeductible.

Safe-deposit box rental fee. Starting in 2018, no deduction is allowed for miscellaneous itemized deductions, which includes a safety-deposit box rental fee.

Computers and tablets used for investments. Starting in 2018, no deduction is allowed for miscellaneous itemized deductions, which includes allowances for the purchase of computers and tablets used for investments. However, deductions can still be claimed for these items if they are used in business and you are self-employed.

Fees for financial advice. Starting in 2018, no deduction is allowed for miscellaneous itemized deductions, which includes fees for financial advice.

Gain on the sale of small business stock. The opportunity to roll over the proceeds from the sale of qualified small business stock within 60 days into other such stock in order to defer tax on the gain has been repealed. This change applies to sales after December 31, 2017. However, the opportunity to reap 100% tax-free gain on the sale of qualified small business stock by holding it for more than 5 years continues to apply.

Gain on empowerment zone assets. The exclusion of gain on the sale of empowerment zone assets that are rolled over within 60 days of the sale which expired at the end of 2016, has been extended for 2017. Whether it will be extended again for 2018 is uncertain.

Gain on Opportunity Zone assets. Starting in 2018, various tax incentives apply to investments in these areas. Likely these zones will be designated in the first or second quarter of 2018.

Chapter 9—Travel

Business travel per diem rates. The maximum federal per diem rate for travel starting October 1, 2017, through September 30, 2018, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is $144 per day ($93 for lodging and $51 for M&IE). These rates are higher than the prior 12-month period when the rate was $142 per day ($91 for lodging and $51 for M&IE). The per diem rates for travel to certain areas have been increased. These rates can be found at www.gsa.gov (click on Per Diem Rates).

The high-low substantiation rates for areas within CONUS for the period October 1, 2017, through September 30, 2018, are $284 for travel to high-cost localities and $191 for travel to all other areas with CONUS. Of these rates, the meal portion is $68 for high-cost areas and $57 for all other areas within CONUS. The list of high-cost areas has been changed (see Notice 2017-54 for details).

Driving your car for medical. The IRS standard mileage rate for 2018 is 18¢ per mile (up from 17¢ per mile in 2017). Because the deduction for moving expenses has been repealed for 2018, there is no deduction for driving your car for work-related moving purposes.

Frequent flyer miles. The IRS has not made any further determinations affecting the tax treatment of frequent flyer miles.

Chapter 10—Entertainment

Entertainment expenses. No deduction can be claimed for business entertainment costs in 2018. Whether taking customers or clients out for a meal will be viewed as entertainment or remain a deductible meal cost awaits IRS guidance.

Standard meal allowance. The rates are set for the government's fiscal year beginning October 1, 2017, through September 30, 2018:

- *Maximum allowance for meals and incidental expenses.* The maximum federal allowance for travel in CONUS for the period October 1, 2017, through

September 30, 2018, is the daily rate of $51 ($54, $59, $64, $69, and $74 for higher-cost areas); these rates are unchanged from those in the prior fiscal year.

- *High-low substantiation rate.* The IRS-set rates for meal and incidental costs within CONUS from October 1, 2017, through September 30, 2018, is $68 per day for high-cost areas and $57 per day for other areas (unchanged from the previous 12-months).
- *Meal allowance for transportation industry workers.* The IRS-set rate for CONUS stays at $63 per day for the period from October 1, 2017, through September 30, 2018; the rate for travel outside of CONUS is also unchanged at $68 per day.

Gambling losses. The TCJA repealed the deduction for miscellaneous itemized deductions subject to the 2%-of-adjusted-gross-income threshold. However, gambling losses continue to be deductible. The new law modified the definition of gambling losses.

Chapter 11—Real Estate

Deduction for energy-efficient commercial buildings. The ability to deduct up to $1.80 per square foot for an energy-efficient building which expired at the end of 2016, has been extended for 2017. Whether it will be extended again for 2018 is uncertain.

Special breaks for certain disaster victims. Unfortunately, natural and other disasters continue to occur. Special rules apply to certain 2016 and 2017 disasters (e.g., Hurricanes Harvey, Irma, and Maria, and the California wildfires in 2017). These breaks are explained in Chapter 4 (Your Home). They do not apply to real estate held for investment.

Like-kind exchanges. Gain on the exchange of property for other property of like kind can be deferred under certain conditions. This special treatment is ended for exchanges of personal tangible property after 2017, but is retained for exchanges of real estate.

Chapter 12—Borrowing and Interest

Home mortgage interest. The new cap on acquisition indebtedness and the bar to interest on home equity loans are explained in Chapter 4.

Student loan interest. See Chapter 3.

Borrowing from retirement plans. See Chapter 5.

Investment-related interest. See Chapter 8.

Borrowing from retirement plans. Starting in 2018, if you borrow from a qualified retirement plan and leave the company before repaying the loan, you can avoid having the balance treated as a taxable distribution (a “deemed distribution”) by depositing it in another qualified retirement plan no later than the due date of the return (including extensions) for the year of the deemed distribution.

Special rules apply to loans from qualified retirement plans for victims of certain disasters in 2017. These include:

- An increase in the limit on loans taken before January 1, 2019, to $100,000 (up from the usual $50,000 cap).
- For loans outstanding on the date of Hurricanes Harvey, Irma, and Maria, there is a one-year suspension in the repayment period. Interest continues to accrue during the suspension, so the repayments must be recalculated when they begin after the suspension period. For new loans taken before January 1, 2019, repayment does not need to start until one year from the date of the loan.

Chapter 13—Insurance and Catastrophes

Casualty and theft losses. The IRS has created a safe harbor for homeowners with deteriorating concrete foundations as a result of pyrrhotite. This condition is treated as a casualty loss that allows homeowners to deduct the cost of repairs as a casualty loss. To qualify for the safe harbor, a homeowner must obtain a written evaluation from a licensed engineer indicating that the concrete contains pyrrhotite and a reassessment report showing that the reduced assessed value of the property is based on the engineer's written evaluation and an inspection that meets Connecticut law (the reassessment is not necessary for homeowners outside of Connecticut). If these conditions are met and a claim for reimbursement is pending, a homeowner can deduct 75% of the unreimbursed repair costs during the year of repair. Any amounts reimbursed in excess of what's been deducted is treated as income in the year they are received. If there is no reimbursement pending, then the full cost of repairs is deductible.

The IRS has also created as special safe harbors for figuring the decrease to the fair market value of personal-use residential property (your home or vacation home) and personal belongings as a result of a casualty or theft. If you qualify for and use one of the safe harbors to determine the decrease in fair market value, the IRS will not challenge your determination.

The IRS provides four safe harbors that may be used for any casualty or theft loss, and three safe harbors that only apply to federally declared disasters (Rev. Proc. 2018-8). One safe harbor allows a homeowner to use the lesser of 2 repair estimates from separate licensed contractors to establish the reduction in fair market value to their residence; this can only be used if the casualty loss is no more than $20,000, before applying the floors for personal-use assets. Under a *de minimis* safe harbor for casualty losses of $5,000 or less (prior to applying the personal use floors), a good-faith estimate of repairs may be used to determine the decrease in fair market value to a residence, but only for repairs that restore the residence to its pre-casualty value.

The IRS has also provided an additional cost indexes safe harbor that can be used to determine the amount of loss to a home resulting from Hurricane and Tropical Storm Harvey, Hurricane Irma and Hurricane Maria (Rev. Proc. 2018-9). Tables provide cost indexes per square foot that vary with the type of damage incurred and the size of the residence. Instructions to Form 4684 and Publication 547 contain more details on the safe harbor methods.

After 2017, no itemized deduction can be claimed for casualty and theft losses, other than for those in designated disaster areas.

Disaster losses. The Disaster Relief Act of 2017 created a number of special breaks for victims of Hurricanes Harvey, Irma, and Maria. The Tax Cuts and Jobs Act provided relief for certain 2016 disasters.

For victims of Hurricanes Harvey, Irma, or Maria, with losses in Florida, Georgia, Texas, Puerto Rico or the U.S. Virgin Islands, the usual 10%-AGI floor does not apply. However, the usual $100 floor is replaced by a $500 floor for such losses. Also, such losses can be claimed without itemizing; the standard deduction is increased by the net loss. This increase to the standard deduction is allowed for AMT purposes.

Find a list of all federal disaster areas for 2017 disasters from FEMA at

https://www.fema.gov/disasters/grid/year/2017.

Accelerated death benefits. For chronically ill individuals, the daily dollar limit excludable from gross income for 2018 is $360 (unchanged from 2017); excess amounts are taxable to the extent they exceed actual long-term care costs.

Hurricanes Harvey, Irma, and Maria. Congress and the IRS have created special deductions and other breaks for certain disaster victims. Special breaks related to distribution and loans from qualified retirement plans are explained in Chapter 5. Other breaks include:

- *More time to file*. The deadlines for filing tax returns and doing other required actions has been delayed. A list of disasters subject to extensions and the extended due dates can be found at https://www.irs.gov/uac/tax-relief-in-disaster-situations.
- *Donating unused leave time to an employer's program*. The donated vacation, sick, or personal days that would ordinarily be taxed as compensation is treated as tax free if the employer donates the cash to a charity benefiting victims of the Hurricanes Harvey, Irma, and Maria, and the California wildfires in 2017.
- *Special breaks for hardship distributions and loans from qualified retirement plans*. See Chapter 5.

Note that Congress may create additional relief for subsequent disasters in 2017 (e.g., California wildfires, flooding, mudflows, and debris flows that took place beginning in December 2017), so check for changes before you file your return. And check for disaster relief for 2018 events.

Chapter 14—Your Job

Educator expenses. See the *Introduction*.

Fringe benefits. A couple of benefits have been impacted for 2018:

Transportation fringe benefits. The monthly exclusion for free parking, transit passes, and van pooling for 2018 is $260 (up from $255 in 2017). However, because employers can no longer deduct these expenses, they may not be offered to you. The benefit for bicycle assistance ($20 per month) does not apply for 2018 through 2025.

Moving expenses. The tax-free reimbursement by an employer for moving expenses does not apply after 2017.

Adoption assistance. The exclusion amount in 2018 for employer-provided adoption assistance is $13,840 (up $270 from 2017).

Income earned abroad. The maximum foreign earned income exclusion for 2018 has been increased to $104,100 (up from $102,100 in 2017).

Chapter 15—Your Business

Equipment purchases. The Tax Cuts and Jobs Act made important changes impacting write-offs for equipment purchases. Note the effective dates:

- *First-year expensing.* The limits for 2017 are unchanged at $510,000 (with the phase-out starting at $2,030,000 million). Starting in 2018, the limit is $1 million (with the phase-out starting at $2.5 million). The $25,000 limit for the purchase of a heavy SUV applies for 2018. All of these dollar limits will be indexed for inflation after 2018.
- *Bonus depreciation.* Bonus depreciation remains increases to 100%, for property purchased and placed in service after September 27, 2017. The 100% limit applies through 2022; the rate will be 80% in 2023, 60% in 2024, 40% in 2026, and 20% in 2026. (There is an additional year for property with long production periods.) Also, for post-September 27, 2017, property, bonus depreciation applies to both new and pre-owned property; before this date only new property qualifies.

Employment-related tax credits. The empowerment zone employment credit and Indian employment expired at the end of 2016. Whether they will be extended to 2017 is uncertain.

Employee retention credit. For employers in certain hurricane areas in 2017, there is an employee retention credit. The credit is 40% of wages up to $6,000 paid to employees from the hurricane through the end of 2017, for a top credit per employee of

$6,000. However, this credit cannot be claimed if the work opportunity credit is claimed for the same worker.

Credit for family and medical leave. Starting in 2018, there is a credit for employers who pay wages during family and medical leave. While small employers aren't required to give unpaid leave under the federal Family and Medical Leave Act nor pay employees on leave, some may choose to do so. An employer who pays at least 50% of pre-leave compensation can claim a tax credit between 12.5% and 25% of such amount.

Self-employment tax. The wage base for the Social Security portion of the self-employment tax in 2018 is $128,400 (up from $127,200 in 2017).

Standard mileage rate. The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving; for 2018 it is 54.5¢ per mile (up from 53.5¢ per mile in 2017).

Those who own their vehicles and use the standard mileage rate for 2018 must reduce the vehicle's basis by 25¢ per mile (the same reduction as in 2017).

Business-related tax credits. The energy-efficient home credit and the alternative fuel vehicle refueling property credit, which expired at the end of 2016, has been extended for 2017. Whether it will be extended again for 2018 is uncertain.

Chapter 16—Miscellaneous Items

Gifts you make. The annual exclusion amount for 2018 is $15,000 per recipient (up from $14,000 in 2017). Of course, the recipient can receive any amount tax free (the exclusion impacts only the gift tax, if any, owed by the person making the gift).

Tax audits. The reasonable reimbursement rate for attorney's fees in 2018 when the IRS's position is not substantially justified and other requirements are met remains at $200 per hour.

Alternative minimum tax (AMT). The AMT exemption amounts are up dramatically for 2018, as shown in the following table:

Filing status	2018 exemption	2017 exemption
Married filing jointly/surviving spouse	$109,400	$84,500
Single/head of household	$70,300	$54,300

Married filing separately	$54,700	$42,250

Exemption phase-out. The exemption amounts for 2018 start to phase out when alternative minimum taxable income (AMTI) exceeds $500,000 for singles, heads of households, and married persons filing separately, and $1 million for married filing jointly and surviving spouses.

Medical deduction. For 2017 and 2018, the 7.5%-of-AGI threshold for medical expenses applies for AMT purposes as well as regular tax purposes.

ABLE accounts. See Chapter 2.