The Future of Itemized Deductions

"Rumors of Extinction May Be Premature"

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The 2017 Tax Cut and Jobs Act made significant changes to the tax code which will impact millions. Many may believe the increase in the amount of the standard deduction will be the end of itemized deductions and the need to track items like charitable donations and local taxes paid.

For 2018, personal exemptions no longer exist. With the loss of this deduction, the standard deduction was increased, as well as other credits were increased.

Filing Status	**2017**	**2018**
Single	$6,350	$12,000
Married	$12,700	$24,000
Married Filing Separately	$6,350	$12,000
Head of Household	$9,350	$18,000

For millions of filers, this increase will simplify their annual tax return. If they never itemized, they will benefit from the now larger deduction. For those who historically itemized but had Schedule A deductions (deductible medical, mortgage interest, property and sales or income taxes, and charitable donations) less than twice the old standard deduction amount, most likely will no longer file the Schedule A and instead claim the now larger standard deduction. While this is beneficial to millions of tax payers, it is a great concern to all the charitable organizations in our country. These organizations fear the loss of the importance of the charitable donation, their revenue may drop.

Those with itemized deductions more than twice the old standard deduction amounts, may not be impacted by the increase in the standard deduction or the filing of their Schedule A. The limitation of the SALT deductions (state and local taxes) to $10,000 will impact only those who have high personal property taxes and high state income or sales taxes. This may create opportunities and the timing or payment of certain expenses to maximize the SALT deductions without exceeding the $10,000 limit if possible.

For those in many states, the timing of the payment of real estate taxes can be controlled if the payments are not being escrowed and paid by the mortgage company. For those with SALT deductions totaling near $10,000 or more, may have some flexibility depending upon whether they use sales tax or Tennessee income taxes on their return. Tennesseans are blessed since the state income tax rate is being reduced by 1% each year and thus this tax will eventually be gone.

If sales tax amounts are used, in years where this amount is unusually large due to the purchase of a vehicle or other taxable items, it may be possible to shift the payment of real estate tax due to January of the following year. As cash basis tax payers, it is not the year the deduction is for, it is the year the deduction is paid which determines when it is reported on the return. Other deductions such as charitable donations are elective as to when they are paid. For all those taxpayers whose itemized deductions are just below the new standard deduction amounts and in the past made charitable donations, may be able to itemize everything other year, thus still saving hundreds in taxes due to their itemized deductions.

For these taxpayers, in either odd or even years they could pay all the real estate taxes for prior year in January and the current taxes when due in the fall. Additionally, the charitable donations could also be concentrated into the same odd or even year. Doing so may enable the taxpayer to itemize in those years, thus reducing their taxable income by the amount of the itemized deductions which now exceeded the new standard deduction limits. This may save hundreds if not more in federal taxes due. In this case, charitable donations retain their importance in tax planning like other deductions, it is just the timing of when they are paid which becomes the focus for many taxpayers.

When the tax code closes one door, with a little research, a window may be found to continue to reduce taxes paid even if it is only every other year.