New Tax Law Provides 10 Key Breaks for Individual Taxpayers

A recent spending package signed into law by President Trump on December 20 retroactively resurrects and/or extends several key tax breaks through 2020. It also provides tax relief for victims of federally declared disasters. Here are ten breaks that can benefit eligible individuals.

1. Reduced Threshold for Medical Expense Deductions

The Tax Cuts and Jobs Act (TCJA) set the threshold for itemized medical expense deductions at 7.5% of adjusted gross income (AGI) for 2017 and 2018. The threshold was scheduled to increase to 10% of AGI starting in 2019.

Luckily, the Taxpayer Certainty and Disaster Tax Relief Act extends the 7.5%-of-AGI threshold through 2020. To take advantage of the reduced threshold, you might need to "bunch" discretionary medical expenditures — such as dermatology treatments, orthodontics, dentures and eyeglasses — along with other itemized deductions, in alternating tax years.

2. Deduction for College Tuition Costs

The federal income tax deduction for college tuition costs expired at the end of 2017. However, the Taxpayer Certainty and Disaster Tax Relief Act retroactively resurrects the deduction for 2018 and extends it for 2019 and 2020.

That means, depending on your income level, you can deduct up to $2,000 or up to $4,000 of annual eligible college costs incurred in 2018, 2019 and 2020. The following modified gross income (MAGI) limits apply:

- Taxpayers with MAGI up to $65,000 ($130,000 if married filing jointly) can claim a maximum $4,000 deduction.
- Taxpayers with MAGI between $65,001 and $80,000 ($130,001 and $160,000 if married filing jointly) can claim a maximum $2,000 deduction.
- The allowable deduction goes to zero if your MAGI exceeds $80,000 ($160,000 if married filing jointly).

Qualifying taxpayers can claim this break, regardless of whether they itemize deductions or take the standard deduction.

Important: You may qualify for other education tax breaks, which weren't affected by the new law, that could be more valuable, depending on your situation.

3. Tax Break for Forgiven Principal Residence Mortgage Debt

For federal income tax purposes, a forgiven debt generally counts as taxable cancellation of debt (COD) income. However, a temporary exception applied to COD income from canceled mortgage debt that was used to acquire a principal residence.

Under the temporary rule, up to $2 million of COD income from principal residence acquisition debt that was canceled in 2007 through 2017 was treated as a tax-free item ($1 million for married individuals who file separately).

The Taxpayer Certainty and Disaster Tax Relief Act retroactively resurrects this break to cover eligible debt cancellations that occurred in 2018. It's also been extended to cover eligible debt cancellations that occur in 2019 and 2020. This break also applies to an eligible debt cancellation that happens after 2020 under a binding written agreement that was entered into before January 1, 2021.

4. Deduction for Mortgage Insurance Premiums

The deduction for mortgage insurance premiums expired at the end of 2017. However, the Taxpayer Certainty and Disaster Tax Relief Act retroactively resurrects this deduction for 2018 and extends it for 2019 and 2020.

Specifically, premiums for qualified mortgage insurance on debt to acquire, construct or improve a first or second residence can potentially be treated as deductible qualified residence interest. However, the deduction is available only for premiums for qualifying policies issued after December 31, 2006, and premium amounts allocable to periods before 2021. And it's phased out for higher-income individuals.

5. Credit for Energy-Efficient Home Improvements

In recent years, individuals could claim a federal income tax credit of up to $500 for the installation of certain energy-saving improvements to a principal residence. This break expired at the end of 2017. Fortunately, the Taxpayer Certainty and Disaster Tax Relief Act retroactively resurrects this credit for 2018 and extends it for 2019 and 2020.

Important: The $500 maximum allowance must be reduced by any credits claimed in earlier years. In other words, the $500 amount is a *lifetime* limitation. So, many taxpayers who claimed the credit before 2018 will be ineligible for any further credits for 2018 through 2020.

6. Credit for Fuel Cell Vehicles

The federal tax income credit for fuel cell vehicles also expired at the end of 2017. But the Taxpayer Certainty and Disaster Tax Relief Act retroactively resurrects this credit to cover qualified vehicles purchased in 2018 and extends it to cover qualified vehicles purchased in 2019 and 2020.

Under current law, taxpayers can claim a federal income tax credit for vehicles propelled by chemically combining oxygen with hydrogen to create electricity. The base credit is $4,000 for vehicles weighing 8,500 pounds or less. Heavier vehicles can qualify for credits of up to $40,000. An additional $1,000 to $4,000 credit is available to cars and light trucks to the extent their fuel economy specified fuel economy standards.

7. Credit for 2-Wheeled Plug-In Electric Vehicles

The federal income tax credit for electric-powered motorcycles expired at the end of 2017. But the Taxpayer Certainty and Disaster Tax Relief Act retroactively resurrects this credit to cover qualified vehicles purchased in 2018 and extends it to cover qualified vehicles purchased in 2019 and 2020.

This credit is for 10% of the cost of qualifying electric-powered 2-wheeled vehicles manufactured primarily for use on public thoroughfares and capable of at least 45 miles per hour. It can be worth up to $2,500.

8. Credit for Alternative Fuel Vehicle Refueling Equipment

Another green tax break that expired at the end of 2017 was the federal income tax credit for alternative fuel vehicle refueling equipment. The Taxpayer Certainty and Disaster Tax Relief Act retroactively resurrects this credit to cover property placed in service in 2018 and extends it for 2019 and 2020. The credit equals up to 30% of the cost of installing nonhydrogen alternative fuel vehicle refueling property.

9. Credit for Health Insurance Costs

The health coverage tax credit (HCTC) was scheduled to expire at the end of 2019. However, the Taxpayer Certainty and Disaster Tax Relief Act extends it through 2020.

This credit equals 72.5% of the premiums for qualified health insurance coverage paid by eligible individuals. Unfortunately, this credit is highly restricted and applies only to certain narrowly defined individuals.

10. Tax Breaks for Federally Declared Disasters

The TCJA generally eliminates itemized deductions for personal casualty losses incurred in 2018 through 2025, unless they occur in a federally declared disaster. If you're the victim of a federally declared disaster you also might qualify for additional relief under the Taxpayer Certainty and Disaster Tax Relief Act, including:

- Exceptions to the 10% early-withdrawal penalty for qualified disaster relief distributions from retirement plans and IRAs,
- Recontribution privileges for IRA withdrawals intended for home purchases that were canceled due to an eligible disaster,
- Flexible rules for retirement plan loans in qualified hurricane relief situations,
- Temporary suspension of limitations on charitable contribution deductions for donations related to qualified disaster relief efforts, and
- Liberalized rules for qualified disaster-related deductions for personal casualty losses.

These relief measures apply to individuals and businesses in areas affected by federally declared disasters occurring between January 1, 2018, and 30 days after December 20, 2019. We'll cover them in more detail in a future article.

For More Information

Consult with us for more information about the recent "extenders" legislation, including the new disaster relief provisions. In addition to explaining the relevant rules and restrictions, we can help you file an amended 2018 return in some cases to take advantage of breaks that were retroactively resurrected for 2018.

The Law Office of Eugene Gorrin, LLC
17 Watchung Avenue, Suite 204
Chatham, NJ 07928
973.701.9300
egorrin@gorrinlaw.com
www.gorrinlaw.com