Ken Berry • Jan. 04, 2018

Timing is everything in taxes and the new tax law —the Tax Cuts and Jobs Act — is no exception. Generally, the provisions for individuals take effect in 2018, but there are several interesting wrinkles.

Prescription for medical expenses. Although the TCJA scales back or repeals most itemized deductions, it actually enhances the medical expense deduction. Specifically, the new law rolls back the threshold for deducting expenses to 7.5% of adjusted gross income (AGI), down from 10% of AGI. This change applies only to the 2017 and 2018 tax years. In other words, the tax break is retroactive – your clients may benefit on the 2017 return they'll be filing soon.

Terms of tax endearment. Under prior law, a divorced or separated spouse who paid alimony could deduct those amounts, while the payments were taxable to the spouse on the receiving end. Thus, the tax implications were often critical to divorce negotiations. Now the TCJA wipes out both the alimony deduction for payors and the tax liability for recipients. Caveat: These changes take effect for agreements entered into after 2018. So taxes can still have a major impact for clients settling a divorce this year.

Gimme tax shelter. Previously, a homeowner was able to deduct mortgage interest paid on the first $1 million of acquisition debt, plus interest on up to $100,000 of home equity debt. The new tax law lowers the limit for home equity debt to $750,000 and repeals the deduction for home equity debt entirely. However, the acquisition debt limit is grandfathered for loans taken out prior to December 15, 2017 (including those under a binding contract) so current homeowners may salvage a higher deduction. What's more, this tax break is still preserved if you refinance the existing debt.