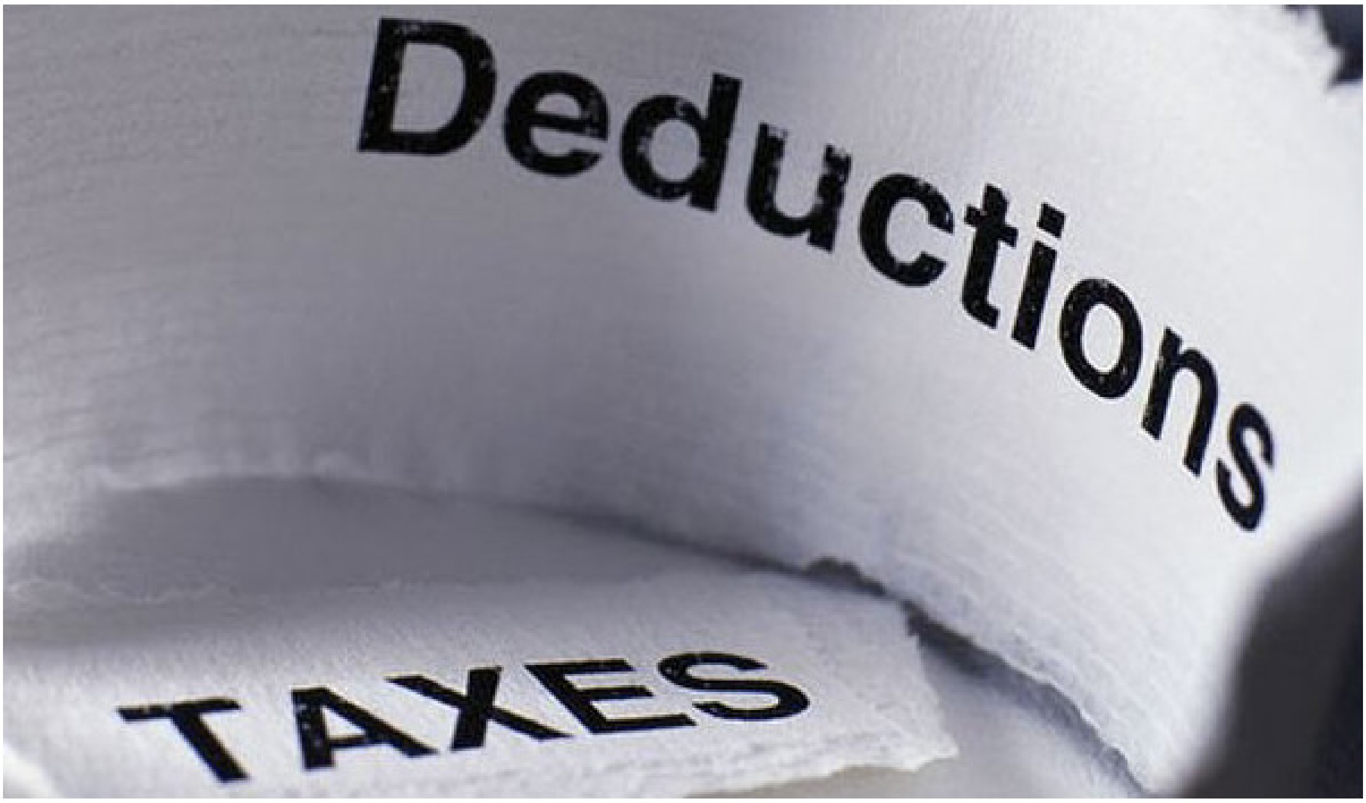
CPA Practice Advisor



The Tax Cuts and Jobs Act (TCJA) was a game-changer for many individual taxpayers. Notably, the TCJA suspends or modifies certain deductions while essentially doubling the standard deduction for 2018 through 2025. As a result, millions of taxpayers no longer itemize and are claiming the standard deduction, at least temporarily.

For 2021 returns, the standard deduction is $12,550 for single filers and $25,100 for joint filers. Consider these key TCJA provisions that may affect your filing outlook.

State and local taxes: As was the case prior to the TCJA, an itemized deduction is available for any combination of state and local tax (SALT) payments of (1) property taxes and (2) income taxes *or* sales taxes. But the total annual SALT deduction can't exceed $10,000. This is a significant impediment for many taxpayers, especially those in high-tax states, and may result in a switch to the standard deduction. Note:

Casualty and theft losses: The TCJA suspends the deduction for casualty and theft losses except for losses sustained in an officially-designated federal disaster area. The prior rules for claiming losses, including the floor of 10% of adjusted gross income (AGI), continue to apply. Note: You can elect to deduct a disaster-area loss in the tax year prior to the year of the event.

Miscellaneous expenses: You can't deduct miscellaneous expenses such as employee business expenses and qualified production-of-income expenses. Previously, the miscellaneous expense deduction was limited to the excess above 2% of adjusted gross income (AGI).

Moving expenses: This deduction claimed "above the line" is no longer available, except for certain military personnel. Furthermore, if a regular employer reimburses an employee for moving expenses, the reimbursements are taxable under the TCJA.

Alimony expenses: The above-the-line deduction for alimony (and the corresponding inclusion in taxable income) is *permanently* eliminated. But the crackdown generally takes effect for agreements executed in 2019 or thereafter. For instance, if you are paid alimony last year under the terms of a 2018 divorce decree, you may still deduct the payments on your 2021 return.

Medical expenses: Count this one on the plus side. The TCJA temporarily lowered the threshold for deducting unreimbursed medical expenses from 10% of AGI to 7.5% of AGI. Subsequent legislation made this change permanent. This may give you a better shot at a medical expense deduction on your 2021 return.

Finally, in conjunction with other changes, the TCJA suspends the "Pease rule" reducing the tax benefit of certain itemized deductions for high-income taxpayers. Unless Congress takes additional tax action, this rule will be reinstated in 2026. Stay tuned.