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New SALT Rules Spice Up ’18 Returns
First-time limits apply to deductions

Under the Tax Cuts and Jobs Act (TCJA), certain deductions have been eliminated or modified, including the write-off for state and local tax (SALT) payments. The changes are effective for 2018 through 2025. As a result, many taxpayers may be limited when they file their 2018 returns.

Background: Currently, numerous middle-to-upper income taxpayers itemize deductions in lieu of claiming the standard deduction. However, the TCJA limits the deduction for SALT payments to $10,000 annually, among other changes, while essentially doubling the standard deduction. Due to the combination of these provisions, the standard deduction on a 2018 return—$12,000 for single filers or $24,000 for joint filers—can easily exceed the itemized deduction amount you are eligible to claim.

Therefore, you may get no tax benefit for SALT payments on your 2018 return, even if you paid a high amount in taxes. For those taxpayers who are still better off itemizing, be aware of how the new rules work and how they limit the deduction.

The deduction applies to any combination of (a) state and local property taxes **AND** (b) state and local income taxes **OR** state and local sales taxes. Typically, a taxpayer must pay property taxes on a home to the municipality where he or she resides. In all but nine states—Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming**—**income taxes are imposed on both wages and investment earnings, while taxpayers must pay sales tax on purchases when required by applicable state law in all but four states—Delaware, Montana, New Hampshire and Oregon.

Frequently, the amount you must pay for state and local income taxes is greater than the total amount you might claim for sales tax. However, to obtain a greater benefit, you may choose to deduct sales tax under one of two methods:

1. Actual expense method: With this method, you deduct the actual amount of sales tax paid in 2018, based on the receipts and credit card statements you have kept. Although the actual expense method will often provide a larger overall deduction than the simplified method, it requires diligent recordkeeping.

2. Simplified method: With the second method, which is less time-consuming, you simply deduct an amount based on a **special IRS table**. The table provides a specific amount for each state based on the size of your family. A potential bonus: In addition to the amount listed for your state in the IRS table, you may be able to increase your sales tax deduction by the amount of sales tax paid on the following:

- Purchase or lease of a motor vehicle;
- Purchase of a boat or aircraft; or
- Purchase or substantial addition or renovation of a home.

Thus, even if you are using the simplified method for the SALT deduction, it is beneficial to keep records for these larger items.

Final thoughts: The method you choose, and whether you are even claiming any deduction for SALT payments, depends on your personal circumstances. There are several key factors to consider, so seek professional guidance, when warranted.

If you have any questions about SALT deductions, please contact Jason Creel - jasonc@gmpcpa.com.