The Tax Cuts and Jobs Act (TCJA) produced significant changes to the U.S. tax code. Though the regulations implementing the code still are being written, we do know some details.

Itemized Deductions
The tax code allows you to elect to take a standard deduction of a set amount. In 2017, that amount was $12,700 for those married filing jointly (MFJ). For single taxpayers, the amount was $6,350, and for head of household (HoH), the amount was $9,350. For 2018, the amounts increased to $24,000 for MFJ, $12,000 for single taxpayers, and $18,000 for HoH. This means that for more taxpayers, the standard deduction will be larger than the amount they can claim if they itemize.

But you should look a little deeper. If your state has an income tax, it might not be so simple. Most states pull a number from some point on the federal tax return. Many use adjusted gross income (AGI), and those that do normally allow you to itemize or take a state standard deduction. In many cases, if you take the standard deduction on your federal return, you must take the standard deduction on your state return.

Therein lies the rub: Most states' standard deduction is significantly less than the new standard deduction on the federal return. If your actual deductions are close to your federal standard deduction, you might want to elect to itemize even though you'll pay more in federal taxes to get the larger deduction on your state return and pay less in state taxes. To know for sure, you'll need to calculate your taxes both ways.

Exemptions
Exemptions are eliminated under the TCJA. You still will want to determine whether your children or others are dependents, though, because certain credits, such as education credits and child care credits, depend on status as a dependent. Also, the states didn't sign onto this, so you might still have exemptions on state returns.

Child and Dependent Credits
The TCJA significantly expanded the child credit and added a new credit for dependents. Under the TCJA, the child credit is increased to $2,000 per child from the current credit of $1,000. But perhaps even more important for those in a post-military career, the AGI limit for the credit is increased to $400,000 for MFJ and $200,000 for all others. This will open up the credit to a lot more taxpayers.

The child credit is limited to children under age 17. This is true in both the “old” tax law and the TCJA. But the TCJA added an additional credit that could apply to your children (and your parents). The dependent credit is $500 and applies to

dependents who are not qualifying children. In other words, if you child is in college and qualifies as a dependent, you can claim the $500 credit.

The Tax Cuts and Jobs Act (TCJA) significantly changed the amount of principal on which interest can be deducted and changed the tax treatment of home equity interest.

Principal Limits

Under the “old” tax law, you could deduct home acquisition interest on mortgages secured by a qualified residence, which is defined as a principal residence and a second home, as long as the combined mortgage amount did not exceed $1 million. Under certain circumstances, it was possible to qualify an additional $100,000 of acquisition debt as home equity debt and be able to deduct the interest on a total of $1.1 million of debt.

Under the TCJA, the limit is reduced to $750,000. Fortunately, if you took out the mortgage prior to Dec. 15, 2017, you are grandfathered in under the old laws. This won't apply if you refinance a loan, though, so be careful if you are looking to refinance a loan in the $750,000 to $1 million range, as you could lose significant deductions.

Home Equity Interest

Under the TCJA, home equity interest is not deductible and, unlike the principal limits, existing home equity debt is not grandfathered. This means if you have home equity interest, you no longer can deduct it. Only home acquisition debt remains deductible. This could cause a lot of problems for taxpayers, because your first mortgage isn't always totally home acquisition debt and your home equity loan is not always home equity debt.

Home acquisition debt is debt obtained for the purchase or improvement of a qualified residence. Conversely, home equity debt is not used for purchase or improvement. Let's look at a couple of examples.

- **Mortgage refinance.** Suppose you purchased your home in the '90s and took out a mortgage to pay for it. That would be home acquisition debt. When interest rates went down in 2009, you refinanced it. When you refinanced you took out $50,000 in equity for a really nice family vacation. You have a new first mortgage, so it is all acquisition debt, right? I'd say “no.” The $50,000 you took out for a trip is definitely home equity debt. You (your bank probably won't do it for you) will have to determine the percentage of your interest paid that is actually home acquisition debt.

- **Home equity loans.** Deductibility of your interest on loans secured by real estate isn't determined by what it is called, as we saw above. So, if you take out a home equity loan and use the proceeds to improve your home, the interest is deductible regardless of the name.

TCJA eliminates miscellaneous itemized deductions subject to the 2-percent floor. That will affect several things you might be used to deducting.

Tax Preparation. Tax preparation fees or tax advice are no longer deductible. However, if your tax bill is itemized and you have tax preparation fees that are business-related, such as those for your rental property or completing Schedule C, you can deduct those business-related tax preparation fees.

Investment Fees and Expenses. As with tax preparation, investment fees and expenses are no longer deductible. Of note, though, commissions paid when purchasing securities still add to the basis of the security and reduce your profit when the security is sold. So in effect, they are deductible.

Military Uniform Items. Only certain uniform items, such as rank, corps devices, and swords, were deductible. They no longer are.

Unreimbursed Travel Expenses. Reservists and guardmembers who travel more than 100 miles for drill or other reserve-related travel and have unreimbursed expenses continue to be able to account for them as an adjustment to income and they are deductible. Active duty servicemembers report unreimbursed travel expenses, if any, as a miscellaneous itemized deduction, and therefore they are not deductible.

Job-Hunting Expenses. When you separate from military service, you'll probably have job-hunting expenses. Job-hunting expenses such as printing, postage, résumé preparation fees, and travel no longer are deductible.

Work-Related Education. Education expenses to maintain or improve your skills are no longer deductible. Often, retiring military officers would get a certification that relates to their present work and take a deduction for those expenses. As mentioned, you can't do that anymore.

Other Work-Related Items. Other deductions that no longer will be available include home office expenses if you are an employee, professional fees, and depreciation on computers or cellphones used for your employer's benefit.

Some miscellaneous itemized deductions are not subject to the 2-percent floor, and they still are deductible. Most of these are pretty uncommon, but here are a few that could apply:

- Gambling losses up to the amount of gambling winnings
- Casualty and theft losses on income-producing property
- Impairment-related work expenses

The TCJA is slated to expire in 2025, and at least in theory, these deductions will come back.

An additional note: Two deductions I've seen on the tax returns of military members that I've reviewed that are not deductible - ever - are haircuts and gym memberships. The Courts have ruled these expenses are inherently personal in nature even if your job requires you to maintain short hair and meet physical fitness standards.

The good news in all this is your record-keeping requirements just went down and, with the increased standard deduction, for many, your tax bill won't go up.

Alternative Minimum Tax (AMT) The good news is the Tax Cuts and Jobs Act reduces the likelihood you will have to pay the AMT. For married taxpayers, the AMT exemption increases from $84,500 to $109,400. For single and head of household taxpayers, the AMT exemption increases from $54,300 to $70,330. Overall, far fewer taxpayers will be subject to AMT due to the TCJA. But you do need to pay attention if your income is a little out of the “mainstream.”

Qualified Business Income Deduction. One of the bigger changes from the Tax Cuts and Jobs Act is the tax treatment of business income. The media did a pretty good job of reporting on the reduction of corporate tax rates, but they haven't done as well reporting on tax treatment of pass-through entities. That might be because it is pretty complicated. But if you're self-employed as a business owner or an independent contractor, it could, and most likely will, apply to you.

Let's start with defining a pass-through entity. Simply, a pass-through entity is one that passes income through the entity and onto the tax return of the business owner or contractor. Sole proprietors and partnerships, plus S-corporations and limited liability companies (LLCs) that chose to be taxed as a sole proprietors or partnerships, are pass-through entities.

If you operate as one of the entities, you likely have qualified business income (QBI). If you do, you will be able to reduce your income by 20 percent of your QBI. This is commonly called the QBI deduction. However, like most things with the Internal Revenue Code, it isn't quite that simple.

It is important to note that as of this writing, the IRS has only produced proposed regulations. We can anticipate that the final regulations will be similar.

If your business exists to produce or sell a product, the QBI deduction almost certainly will be available to you. This is because Congress wanted to encourage business creation and growth. Conversely, if you are self-employed and the primary source of your income is a result of your labor, then you might have some issues.

The TCJA specifically lists businesses that are Specified Service Trade or Business (SSTB). These businesses are in the following fields: health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such a trade or business is the reputation or skill of one or more of its employees. So if you're an independent contractor/consultant, you're probably a SSTB. If your business is an SSTB, then your deduction could be limited if your income is too high. The good news is “too high” is pretty high. If your business is a SSBT and your adjusted gross income is below $315,000 for married couples filing jointly and $157,500 for all others, then you get the full 20-percent deduction. If your income is above the threshold, then your deduction will phase out subject to other testing. The testing is too complex to explain here, and I suspect it won't apply to too many taxpayers.

While it looks like many will qualify for this deduction, one other area still remains unclear. The QBI deduction is not available for business income that is reasonable compensation to the owner for the services rendered. Reasonable compensation has always been an issue for businesses organized as S-Corporations. It might become an issue for sole-proprietors as well.