



The New Tax Law and Michigan Law Enforcement Officers & Firefighters

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The new tax law is far-reaching and substantial. We haven't seen changes of this magnitude since the Eisenhower Administration. The following is a summary of some of the provisions of the new law, and how they affect Michigan Law Enforcement Officers & Firefighters.

1. **Brackets.** There are still seven brackets. The 10% bracket remains the same and each of the other brackets are reduced. Overall, most people we look at will pay less in taxes. The lowest bracket is still 10% and the highest bracket is now 37%. The filing status of married filing separately is significantly different than the previous law, and may give rise to more couples now filing separately, like if one has significant medical expenses, or one is an owner in a pass-through business.
2. **Capital Gains.** Capital gains and dividends are still taxed about the same. Here are the brackets for capital gains and qualified dividends:

Capital Gain Rate	Single	Married Filing Jointly	Head of Household	Married Filing Separately
0%	Up to \$38,600	Up to 77,200	Up to \$51,700	Up to \$38,600
15%	\$38,600 - \$425,800	\$77,200 - \$479,000	\$51,700 - \$452,400	\$38,600 - \$239,500
20%	Over \$425,800	Over \$479,000	Over \$452,400	Over \$239,500

3. **Standard deduction.** The standard deduction is the amount everyone can deduct, irrespective of their expenditures. The new standard deductions are \$12,000 (single and married filing separately), \$18,000 (head of household) and \$24,000 (married filing jointly). You can deduct more if your total itemized deductions exceed the standard deduction. This means that the effective rate on the first \$24,000 of income for a married couple filing jointly (or \$18,000 if a head of household, or \$12,000 for any other filers) is zero.
4. **Itemized deductions.** **Medical:** You can deduct unreimbursed medical expenses if they exceed 7½% of Adjusted Gross Income (this is for 2017 and 2018). **Taxes:** you are allowed a deduction for state and local taxes up to \$10,000. This includes Michigan income taxes, property taxes, and vehicle license plates. **Interest:** Interest on your mortgage is deductible, as well as interest on existing home equity loans. New mortgages interest deductions are limited to mortgages of \$750,000, and only home equity interest used for home improvement are deductible. **Charity:** charitable contributions are still deductible. Remember your itemized deductions need to exceed your standard deduction to be deductible.

5. **Elimination of employee business expenses.** A change that will affect many Michigan first-responders is the elimination of unreimbursed employee business expenses, also called "Miscellaneous Itemized Deductions." In the past, first-responders had a cadre of expenses they could deduct if the total of costs exceeded 2% of Adjusted Gross Income. These expenses included union dues, uniforms and equipment, dry cleaning (if covered by the officer or firefighter), registrations, association dues, range dues, ammunition, conventions and seminars, safety equipment, and mileage to training. These expenses are no longer deductible as an itemized deduction.
6. **Child credit.** The child credit for children under the age of 17 is increased to \$2,000 per qualifying child, of which \$1,400 is refundable. The credit limits out at a higher income limit of \$200,000 (single) and \$400,000 (married).
7. **Personal exemptions.** Personal exemptions are eliminated.
8. **§529 Plans.** The tax-free saving plan for kids, called the §529, is expanded to allow up to \$10,000 a year to be used for tuition at colleges and post-secondary, and for K-12 education, private or religious.
9. **Pass-through entities.** A lot of small businesses, like rental properties, sole proprietorships, partnerships and subchapter-S corporations will be able to take advantage of new provisions of a pass-through income deduction. It's quite complicated, but the owners of a pass-through business can, in certain cases, get a deduction for 20% of their business income. This is a big change from the past. The 20% deduction is applied per owner and per business, so someone who owns a rental unit and a consulting business will compute the deduction separately.
10. **Full expensing for businesses.** Businesses, including small businesses, get another significant tax break in the form of full expensing. For example, if someone ran a small contracting business, they might be able to fully write-off a new truck or equipment in the year of acquisition. There are many other business changes, including liberalizing accounting rules for small businesses and a much lower rate on corporations.

There is a lot to consider. Moving forward in 2018, these changes will have an effect on what you do now. For example, most officers or firefighters have more in their paycheck as a result of lower withholdings. This is a good time to rethink adding that extra money to your §457 plan. If you or your spouse own a business, there are many things to consider, so consulting your tax advisor early is important. Economically, this tax bill will quite likely stimulate the economy, particularly for business. That will have an effect on property values, and inflation. Overall, this is a good time to plan. Let us know if you would like to sit down and review your situation. As always, we're here to serve those who serve us!



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