What Taxpayers Need to Know about the Proposed Federal Tax Plan - Part 2 of An ACCESS Special Report

November 8, 2017 - This is the second in our series of articles on the tax reform bill currently being debated in Congress. In this section we will focus on some of the many deductions being eliminated and that millions of Americans currently claim on their tax returns. Some of these have been discussed extensively in mainstream media. But some of them haven hardly been mentioned and you may find the fact that congress is considering eliminating them disturbing.

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Medical Expenses

Current law allows W-2 employees to deduct medical expenses in excess of 10% of their income. The new law eliminates this deduction. In doing so, it eliminates the deductibility of long term care, hospice services and premiums for insurance including Medicare plans. It isn't entirely clear at this time how this provision will impact 1099 individual contractors and the self-employed. Under the current law, people falling into this category can write off all of their medical and insurance expenses.

It should be noted that this provision appears to include a restriction precluding the write off of expenses associated with excessively high insurance deductibles under the Affordable Care Act. As such, it means the government is mandating that individuals purchase insurance policies that they may not be able to afford to use, and then penalizing them when they do use them.

Currently, only about 5% of tax returns include medical write offs, but it is a significant deduction for those with chronic illnesses requiring expensive treatment and for the elderly; especially those who reside in nursing homes. We would expect that if this provision becomes law there will be a significant increase in the number of bankruptcies due to excessive medical expenses.

The plan does preserve a deduction for travel associated with medical care but caps hotel costs at $50 per night. According to Statista, the average cost for a hotel room anywhere in the US is currently $128 per night. It can be significantly higher in the major cities that are close to well-known medical treatment facilities.

The plan also preserves a deductible on premiums for long term care insurance but places strict limits on the deduction based upon the age of the subscriber.

Out of all the deductions being eliminated, this one appears to be the most cruel because it actually preys upon some of the most vulnerable people. But as you'll see, there are several other changes below that run a close second to this.
Childcare Deduction

Current law allows parents to deduct up to $5,000 for child care expenses. The new law would eliminate that deduction. The Congressional Budget Office estimates that this change will raise taxes on families with dependent children by $3 Billion over the next ten years.
Adoption Expenses

Anyone adopting a child can currently deduct adoption expenses. This deduction covers costs associated with an adoption up to $13,570. The new law eliminates this deduction.

Personal Casualty Losses

Any losses due to fire, flood, earthquake, theft, etcâ€¦ would no longer be deductible unless they occur in a presidentially declared disaster area. Put another way, if your entire neighborhood burns down, you'll likely be OK. If only your house burns down, you're on your own.

State and Local Taxes (SALT)

Taxpayers can currently take a deduction for state and local income taxes. The new law would eliminate this deduction. This has been portrayed in the media as an issue that only impacts high tax states. That really isn't the case however. There are only seven states in the United States without an income tax. And according to the Tax Foundation, there are 4,943 local jurisdictions in 17 states and covering 23 million people that impose income taxes. Under the new law none of these taxes would be deductible.

In the seven states without an income tax, taxpayers can currently deduct any sales taxes that they pay from their federal income taxes. This deduction would also be repealed. The bottom line here is that this change will increase taxes for everyone living in every single state.

Tax Preparation Services

If you use an accountant or tax preparation service to prepare your taxes, you can write that off under current law. The new law would eliminate that deduction. This appears to be a cynical attempt by congress to dissuade taxpayers from attempting to decrease their individual tax burdens.
Alimony Payments

Under current law, anyone making alimony payments can deduct them from their income. Anyone receiving alimony payments is required to report them as income and pay the appropriate taxes. Under the new law, the person making the alimony payment would no longer be able to deduct them from their income and the person receiving payments would not have to pay taxes on those payments.

Moving Expenses Associated with Employment

Current law allows you to deduct moving expenses associated with employment. The new law repeals this deduction in its entirety. If your employer agrees to pay for your move, any funds you receive will be taxable as normal income.

IRA and 401K Contributions

This is one area that the law does not change. Current requirements and limitations will remain in place.
Estate Taxes

Often referred to as the "death tax," the bill would immediately double the amount of money that can be left to heirs tax free to more than $11 million and completely eliminate the tax by 2023.

In our next article, we'll delve into how this tax reform package will impact home ownership; something most people closely associate with the American dream. As you'll see, this particular bill will make achieving that dream more difficult.

Read part 1

Read part 3

byJim Malmberg
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