MARTIN·SMITH

& COMPANY CPAs

January 2018

Dear Client,

The Tax Cuts and Jobs Act was signed by President Trump on December 22, 2017. The Act will affect taxpayers' 2018 tax returns that will be filed in 2019. The Act makes sweeping changes to the U.S. tax code and impacts virtually every taxpayer. Individuals are more impacted by the provisions of The Act than any other class of taxpayer. With the reduction in effective tax rates, the elimination of some deductions, exclusions, and credits coupled with the enhancement of other deductions and credits, individual taxpayers are going to have to navigate a maze of changes in making decisions to maximize their tax benefits and minimize their tax liability.

The major goal of tax reform is to simplify tax filing. Provisions of the 2017 Tax Cuts and Jobs Act affecting all individuals include the elimination of the deduction for personal exemptions and the near doubling of the standard deduction. The higher standard deduction that replaces the personal exemption will decrease, by more than half, the number of taxpayers who would otherwise do better by itemizing deductions. Of course, that group will realize less of a net tax benefit than those taxpayers who do not now itemize. Supporters argue that, in addition to simplification, it effectively creates a more broadly applicable "zero tax bracket" for taxpayers earning less than the standard deduction amount.

The loss of many itemized deductions will channel an even greater number of taxpayers to the standard deduction. There are new limits on mortgage debt for purposes of the mortgage interest deduction. Annual itemized deductions for all state and local taxes, including property taxes, are capped at $10,000. The threshold for medical expense deductions is lowered to 7.5 percent of adjusted gross income ("AGI") for tax years 2017 and 2018 and casualty losses will only be allowed for losses in federally declared disaster areas. For many of taxpayers, their total itemized deductions will no longer exceed the standard deduction. And an enhanced child tax credit has been highlighted as one of the provisions that will lower overall tax liability for middle-class families.

These are just highlights of the changes and impact of the Tax Cuts and Jobs Act. There is much more to discuss than can be covered in this letter, including changes to the education benefits, alternative minimum tax, and the individual mandate, to name a few. To help you better understand the new tax laws and their effect on your 2018 taxes, look for two additional items in the folder with your copy of the 2017 income tax return. One item will be a more detailed explanation of the new tax laws. The second item will be a "Tax Projector" report that will be a one-page summary with 3 columns: (1) Your "2017" summarized tax data; (2) "Projected 2018" amounts for each line using the 2017 amounts, but incorporating the 2018 tax laws; and (3) An "Increase (Decrease)" column that will calculate the projected effect of the new tax laws for each line in the report.

For South Carolina residents, effective with the 2018 tax return that will be filed in early 2019, the State is offering a Refundable Motor Fuel Income Tax Credit to offset the motor fuel user fee increase. The motor fuel user fee is charged on a per gallon basis, so the credit is also based on a per gallon basis. To claim the credit, taxpayers must save receipts and invoices from:

- Fuel purchases within South Carolina beginning in January 2018 for each vehicle
- Vehicle preventative maintenance costs beginning in January 2018 for each vehicle

The credit for 2018 will be 3 cents per gallon and will increase each year by 2 cents through 2022. As an example of the potential 2018 credit for one vehicle, assume $1,200 in preventative maintenance costs, 15,000 miles traveled in 2018 and an average of 22 miles per gallon. This would result in a potential $20 credit. The actual credit claimed is the lessor of the preventative maintenance costs and the potential credit. So, in this example the credit would be $20. Each taxpayer can claim the credit for up to two vehicles.

IMPORTANT – keep the receipts and invoices for each vehicle SEPARATE.

For additional information, including examples regarding the provisions of this tax credit, please see SC Revenue Ruling #17-6, "Refundable Motor Fuel Income Tax Credit", or visit https://dor.sc.gov/ and look for "Motor Fuel Income Tax Credit".

If you have questions about any matters touched on in this letter, please give us a call.

Sincerely yours,

MARTIN SMITH & COMPANY CPAs, PA