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& COMPANY CPAs

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Dear Client,

This year's tax filing season is filled with a lot of changes, including an overhaul of Form 1040. The Tax Cuts and Jobs Act signed by President Trump on December 22, 2017, is now in play and will impact nearly every 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, but that is yet to be determined. 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. 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 the 2018 tax year, and casualty losses will only be allowed for losses in federally declared disaster areas. For many taxpayers, their total itemized deductions will no longer exceed the standard deduction. Also, 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 a few 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.

If we prepared your 2017 income tax returns, you should have received a "Tax Projector" to give you some idea of the impact the new tax laws will have on your specific tax situation. Please keep in mind that any reduction of taxes shown in that Tax Projector was probably realized throughout 2018 by way of reduced federal tax withholdings from W-2 wages, thus resulting in more take-home pay.

As tax preparers, we have more responsibilities placed on us by the IRS to perform a minimal amount of due diligence for those tax payers who receive the earned income tax credit, various education tax credits, or are claiming head of household filing status. We will probably need to contact you to obtain more specific information.

For South Carolina residents, effective with the 2018 tax return, 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 on your 2018 SC return, you must have receipts and invoices for January - December 2018 from:

- Fuel purchases within South Carolina for each vehicle
- Vehicle preventative maintenance costs for each vehicle

The credit for 2018 will be 3 cents per gallon and will increase each year by 2 cents through 2022. However, the 2018 credit of 3 cents is reduced by a "credit adjustment factor", so the effective credit is only 1.9 cents per gallon. 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 \$13 credit. Each taxpayer can claim the credit for up to two vehicles. IMPORTANT – keep the receipts and invoices for each vehicle separate. Due to the amount of information needed, please go to our website at www.martinsmithcpas.com/newsletters.html or <https://dor.sc.gov/forms-site/Forms/I385.pdf> to obtain a copy of the form, and then you need to manually complete it and submit it with the documents you give us. Please do not give us your receipts. If you want to claim the credit for 2019, continue saving your gas and car maintenance receipts during 2018. There is a cap of the total credits that SCDOR will issue for the 2018 tax year, so once that maximum credit amount is reached no more will be issued for that particular year. The state-wide credit limit for 2018 is \$40 million. So, this credit is on a first-come, first-served basis.

We at Martin Smith & Company CPAs are celebrating 50 years of service to our community this year. As a commemorative token, we will be giving all our clients a special pen when you come to sign your tax returns.

We look forward to serving you this year!

Sincerely yours,

MARTIN SMITH & COMPANY CPAs, PA