

We would like to inform you about the new limit placed on individuals' itemized deductions of various kinds of nonbusiness taxes, which was made by the massive Tax Cuts and Jobs Act (TCJA), effective beginning with the 2018 tax year.

Before the changes were effective: Individuals were permitted to claim the following types of taxes as itemized deductions, even if they were not business related:

- state, local, and foreign real property taxes;
- state and local personal property taxes; and
- state, local, and foreign income, war profits, and excess profits taxes.

Taxpayers could elect to deduct state and local general sales taxes in lieu of the itemized deduction for state and local income taxes.

Tax deduction cuts: For tax years 2018 through 2025, TCJA limits deductions for taxes paid by individual taxpayers in the following ways:

- It limits the aggregate deduction for state and local real property taxes; state and local personal property taxes; state and local, and foreign, income, war profits, and excess profits taxes; and general sales taxes (if elected) for any tax year to \$10,000 (\$5,000 for married filing separately). *Important exception:* The \$10,000 limit doesn't apply to: (i) foreign income, war profits, excess profits taxes; (ii) state and local, and foreign, real property taxes; and (iii) state and local personal property taxes if those taxes are paid or accrued in carrying on a trade or business or in an activity engaged in for the production of income.
- It completely eliminates the deduction for foreign real property taxes unless they are paid or accrued in carrying on a trade or business or in an activity engaged in for profit.



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To prevent avoidance of the \$10,000 deduction limit by prepayment in 2017 of future taxes, the TCJA treats any amount paid in 2017 for a state or local income tax imposed for a tax year beginning in 2018 as paid on the last day of the 2018 tax year. So an individual may not claim an itemized deduction in 2017 on a pre-payment of income tax for a future tax year in order to avoid the \$10,000 aggregate limitation.

We hope this information helps you understand these changes. Please call us if you wish to discuss how they or any of the many other changes in the TCJA could affect your particular tax situation, and the planning steps you might consider in response to them.

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