The Standard Deduction's Double Standard

One key trend during which most 2018 tax returns have been prepared in the 2019 tax season is that more people have taken the standard deduction, which has increased significantly, and fewer people are claiming itemized deductions, which have been restricted. These changes result from passage of the Tax Cuts and Jobs Act (TCJA) of 2017, which affects preparation of 2018 tax returns.

Drilling down, this shift is greater for married couples filing joint returns than for single taxpayers. That's because state and local tax (SALT) deductions are capped at $10,000 on single and joint returns. Single taxpayers are finding it easier to find value in itemizing compared with couples filing jointly.

Example 1: George and Heidi Miller are both age 67. On their joint 2018 tax return, they can claim a $24,000 standard deduction, plus an extra $1,300 each, because the IRS considers them aged (over 65). Their total is a $26,600 standard deduction: $24,000 + $1,300 + $1,300. (In 2019, the basic standard deduction on joint returns increases to $24,400.)

The Millers pay more than $30,000 in state income and local property tax, but their SALT deduction is capped at $10,000. Assume the only other itemized deductions they can claim are $6,000 for mortgage interest and $4,000 for charitable contributions. Altogether, the Millers could claim $20,000 of itemized deductions, but they would be better off taking their $26,600 standard deduction.

Many married couples will find it difficult to claim more itemized deductions than their standard amount.

Easier For Singles

Conversely, many single taxpayers are finding that it still pays to itemize.

Example 2: Laura Carson, age 67, is unmarried. On her 2018 tax return, Laura can claim a $12,000 standard deduction, plus an extra $1,600, because she is over 65. Laura's total is a $13,600 standard deduction: $12,000 + $1,600. (In 2019, those numbers increase to $12,200 and $1,650, respectively.)

As is the case with the Millers in example 1, assume Laura can take a $10,000 SALT deduction; $6,000 of mortgage interest, and $4,000 for charitable donations. Her total of $20,000 is greater than her $13,600 standard deductions, so it makes sense for Laura to itemize.

The previous examples use taxpayers over age 65. Younger single people also may be likely to itemize because they have only a $12,000 hurdle to clear ($12,200 in 2019), which would mean $2,000 ($2,200 in 2019) in other deductions if they face the $10,000 cap on their SALT deductions.

Planning Points

Under the TCJA, married couples may find it difficult to itemize deductions. As mentioned in the ***March 2019 Sapient CPA Client Bulletin***, people older than 70½ might want to tap their IRAs for qualified charitable distributions because other contributions deliver no tax benefit for those who take the standard deduction. Younger people may want to front load years of charitable contributions into a donor advised fund, if that results in itemizing for the contribution year.

Married couples with children or other loved ones who file a single tax return may want to make family gifts instead of charitable gifts; in 2019, each person can give up to $15,000 per recipient with no gift tax consequences. The recipient may be able to make the desired donation, itemize deductions, and keep a tax benefit in the family.

As for single taxpayers, the key point is to keep itemized deductions in their tax planning. Even with the $10,000 SALT cap, the standard deduction might not be the best option. Maintain careful records of all medical or dental expenses, which might be deductible, and use savvy tactics for charitable giving, such as donating appreciated securities instead of cash. Itemized deductions are still an option, even if only largely for single filers.