COLAs Give You a Head Start on 2018 Planning

It may be impossible to foretell the weather for next year's vacation. But the IRS has just released numbers that will be an important part of your retirement and tax planning during 2018.

Maximum contributions for defined contribution retirement plans increase in 2018. So do various income limits applied to IRA contributions.

Each fall, important aspects of retirement savings plans are adjusted to reflect changes in the cost of living, known as COLAs. Likewise, many existing tax rate schedules are adjusted as well. Here's a rundown of changes scheduled to take effect for the 2018 tax year. Keep in mind that this summary applies to scheduled changes as they stand in November 2017. Laws are always subject to change by acts of Congress and the courts, but this year, sweeping changes are being actively promoted, so the future course may be more uncertain than in past years.

You and Your Employer Can Put More Into Many Defined Contribution Retirement Plans

If you are participating in a 401(k) plan (common at many businesses), a 403(b) plan (common at many schools, hospitals, and nonprofits), or most 457 plans (common at state and local governments), the maximum amount you may put into your account in 2018 will be $18,500. (Your plan limits may be lower.) The same limit applies to federal employees enrolled in the federal government's Thrift Savings Plan. If you are aged 50 or older and participate in any of these plans, the plan may also allow you to make a catch-up contribution of up to $6,000 in 2018. The total amount ("annual additions limit") that can be put into any of these plans in 2018 (employer and employee contributions combined) is $55,000.

The base contribution limit is up from $18,000 in 2017. The total annual additions limit is up from $54,000 in 2017. The catch-up limit is unchanged.

IRA Contribution Amounts Unchanged, but Income Thresholds Increased

If you maintain a traditional IRA, you may be able to deduct contributions to the account of up to $5,500 ($6,500 if age 50 or older). If you are single and also covered by a retirement plan at work during 2018, the maximum amount you can deduct would be reduced gradually after your income (adjusted gross income with certain modifications) reaches $63,000. The deduction would be eliminated when your income reaches $73,000. If you are married filing jointly and covered by a workplace plan, the reductions would start when your income reaches $101,000. The deduction would be eliminated entirely when your joint income reaches

$121,000. If you are married filing jointly and your spouse is covered but you are not, then the reduction for you would start when your income reaches $189,000 and be complete when it reaches $199,000.

Keep in mind that there are no income limits for single taxpayers who are not covered by a workplace plan. Nor are there any income limits for married couples when neither partner is covered by a workplace plan.

If you maintain a Roth IRA and you are single, you can contribute the full amount for 2018 ($5,500 if under age 50, $6,500 if 50 or older) when your income is below $120,000. The allowable contribution amounts would be reduced gradually to zero when your income reaches $135,000. For married taxpayers filing jointly, the phaseout range for 2018 is $189,000 to $199,000.

Key Tax Adjustments Are Intended to Keep Taxes in Line

Here are important tax adjustments for 2018. Keep in mind that these figures apply to income earned during the coming year, so they would apply on the tax return you file in 2019.

- The standard deduction for married filing jointly will be $13,000 for 2018. For single taxpayers and married individuals filing separately, the standard deduction will be $6,500. For heads of households, it will be $9,550.
- The personal exemption next year will be $4,150. It starts getting phased out when adjusted gross income reaches $266,700 ($320,000 for married couples filing jointly), and is phased out completely at $389,200 ($442,500 for married couples filing jointly).
- The threshold for the top tax rate (39.6%) will be $426,700 for single taxpayers, and $480,050 for those married filing jointly.
- As for the alternative minimum tax, the exemption amount for single taxpayers next tax year is $55,400. Phase-out of the exemption begins at $123,100. For married couples filing jointly, the exemption amount is $86,200, and the phase-out begins at $164,100.

Many other amounts are affected by COLAs, including those pertaining to defined benefit retirement plans, highly-compensated plan participants, and others. Also affected are the limits applied to medical savings accounts, the saver's credit, and the earned income tax credit. If any of these issues are of concern, you can learn more about your situation from the IRS website, www.irs.gov.

© 2018 DST Systems, Inc. All rights reserved. Reproduction in whole or in part prohibited, except by permission. All rights reserved.