

New Tax Legislation – Individual Tax Changes

The Tax Cuts and Jobs Act has been approved by both the House and the Senate and should be signed by the President before the end of the year. This is a major overhaul of the tax code and will impact many taxpayers. The following is a summary of the provisions in the new law that may significantly affect individual taxpayers.

Summary Chart

	Current Tax Code (2017)	Proposed Tax Code (2018)
<i>Individual Tax Rates</i>	10, 15, 25, 28, 33, 35, 39.6%	10, 12, 22, 24, 32, 35, 37%
<i>Standard Deduction</i>	Single: \$6,350 MFJ: \$12,700 HH: \$9,350	Single: \$12,000 MFJ: \$24,000 HH: \$18,000
<i>Personal Exemption</i>	\$4,050	Repealed
<i>State and Local Taxes</i>	Deductible	\$10,000 max deduction
<i>Mortgage Interest</i>	\$1 million limit	\$750,000 limit (\$375,000 MFS)
<i>Child Tax Credit</i>	\$1,000 (refundable up to \$1,000)	\$2,000 (refundable up to \$1,400)
<i>Alimony</i>	Payer : payment deduction Recipient : income inclusion	Repealed
<i>Federal Estate Tax</i>	Tax exclusion, GST exemption	Doubled
<i>Affordable Care Act</i>	Shared responsibility requirement	Repealed
<i>Alternative Minimum Tax (AMT)</i>	26 or 28%	Exemption increased

2018 Proposed Tax Code Changes

As a result of the proposed tax code changes, there will be some significant changes for personal tax returns. The individual **tax rates** have been lowered from a range of 10-39.6% to a range of 10-37%. These rate changes would go into effect in 2018 and expire after 2025.

2018 Tax Rates	Single Income	Joint Income
10%	\$0 - \$9,525	\$0 - \$19,050
12%	\$9,525 - \$38,700	\$19,050 - \$77,400
22%	\$38,700 - \$82,500	\$77,400 - \$165,000
24%	\$82,500 - \$157,500	\$165,000 - \$315,000
32%	\$157,500 - \$200,000	\$315,000 - \$400,000
35%	\$200,000 - \$500,000	\$400,000 - \$600,000
37%	Over \$500,000	Over \$600,000

- **Standard Deduction**
 - Nearly doubled for 2018
 - As a result, this would eliminate the need of a majority of taxpayers to itemize their deductions. Only taxpayers with mortgage interest, state and local income taxes and property taxes up to the new \$10,000 maximum limitation amount, and charitable deductions in excess of the new standard deduction amount would be able to claim these amounts as itemized deductions.
 - Some individuals may benefit from accelerating their 2017 4th quarter estimated state income tax payment, and possibly also their estimated final balance due, into 2017. However, watch out for AMT.
 - No prepayment of 2018 State and Local income taxes is allowed
 - Prepayment of 2018 real estate taxes would be a viable deduction in 2017. Again, watch out for AMT.
- **Mortgage Interest**
 - Limits the deduction amount allowed for interest on new acquisition indebtedness to \$750 million (MFJ)
 - Acquisition indebtedness incurred after December 15, 2017
 - Can still include second home, but up to same limitation
 - No deduction for interest on home equity indebtedness allowed
- **Child Tax Credit**
 - Credit Increased from \$1,000 to \$2,000 per qualifying child, under the age of 17
 - Up to \$1,400 is now refundable
 - \$500 nonrefundable credit for qualifying dependents (not qualifying children)
 - Raises the AGI phase-out thresholds
 - \$400,000 – MFJ
 - \$200,000 – all others
 - *As a credit, lowers the middle-class families' overall tax liability!*
- **Alimony**
 - No longer income to recipient, or deduction to payer
 - Applies only to divorces / separations after December 31, 2018
- **Federal Estate Tax**
 - Estate and gift tax exclusion – doubled for deaths and/or gifts after December 31, 2017
 - Generation-skipping transfer (GST) – doubled
 - Federal Estate Tax Rate
 - Current law: 40% with \$5.49 million exclusion (\$10.98 million for MFJ)
 - 2018 changes: up to \$22.4 million for MFJ
 - Heirs still get a “stepped-up, date of death” basis for inheritances
- **Alternative Minimum Tax (AMT)**
 - Increase exemption amount to \$109,400 for MFJ (\$70,300 for single)
 - Increase exemption phase-out so AMT applies to income levels of \$1 million for MFJ (\$500,000 for all others, except estates and trusts)
- **Affordable Care Act (ACA)**
 - Repeals shared responsibility requirement (payment now = \$0)
 - Effective for penalties assessed after 2018
 - Current law: a return is not complete if taxpayer does not have full-year coverage, claim a coverage exemption, or report shared responsibility payment
- **Provisions Left Untouched:**
 - Preferential tax treatment of qualified dividends and long term capital gains
 - Affordable Care Act Taxes
 - Net Investment Income Tax
 - Additional Medicare tax
 - Medical device excise tax