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What the Tax Reform Act Means for You

Congress has passed a tax reform act that will take effect in 2018, ushering in some of the most significant tax changes in three decades. There are a lot of changes in the new act, which was signed into law on Dec. 22, 2017. This letter serves as an overview of the significant changes that will impact individuals.

Key changes for individuals:

Here are some of the key items in the tax reform act that affect individuals:

- **Reduces income tax brackets:** The act retains seven brackets, but at reduced rates, with the highest tax bracket dropping to 37 percent from 39.6 percent. The individual income brackets are also expanded to expose more income to lower rates (see included charts).
- **Doubles standard deductions:** The standard deduction nearly doubles to $12,000 for single filers and $24,000 for married filing jointly.
- **Personal exemptions:** The new law suspends the deduction for personal exemptions. Thus, beginning in 2018, taxpayers can no longer claim personal or dependent exemptions. The rules for withholding income tax on wages will be adjusted to reflect this change, but the IRS was given the discretion to leave the withholding unchanged for 2018.
- **Limits itemized deductions:** Many itemized deductions are no longer available, or are now limited. Here are some of the major examples:
    - **Caps state and local tax deductions:** State and local tax deductions are limited to $10,000 total for all property, income and sales taxes.
    - **Caps mortgage interest deductions:** For new acquisition indebtedness, mortgage interest will be deductible on indebtedness of no more than $750,000. Existing mortgages are unaffected by the new cap as the new limits go into place for acquisition indebtedness after Dec. 14, 2017. The act also suspends the deductibility of interest on home equity debt.
    - **Limit of theft and casualty losses:** Deductions are now available only for federally declared disaster areas.
    - **No more 2 percent miscellaneous deductions:** All miscellaneous deductions subject to the 2 percent of adjusted gross income threshold are now gone.

  Tip: If you're used to itemizing your return, that may change in coming years as the doubled standard deduction and reduced deductions make itemizing less attractive.

- **Cuts some above-the-line deductions:** Moving expense deductions get eliminated except for active-duty military personnel, along with alimony deductions beginning in 2019.
- **Weakens the alternative minimum tax (AMT):** The act retains the alternative minimum tax but changes the exemption to $109,400 for joint filers and increases the phaseout threshold to $1 million. The changes mean the AMT will affect far fewer people than before.
- **Bumps up child tax credit, adds family tax credit:** The child tax credit increases to $2,000 from $1,000, with $1,400 of it being refundable even if no tax is owed. The phaseout threshold increases sharply to $400,000 from $110,000 for joint filers, making it available to more taxpayers. Also, dependents ineligible for the child tax credit can qualify for a new $500-per-person family tax credit.
- **Expands use of 529 education savings plans:** Qualified distributions from 529 education savings plans, which are not subject to tax, now include tuition payments for students in K-12 private schools.
- **Kiddie tax:** Effective 2018, the "kiddie tax" on children's unearned income will use the estates and trusts tax rate structure, meaning it will be taxed anywhere from 10 percent to 37 percent.

What stays the same for individuals:

- **Itemized charitable deductions:** Remain largely the same.
- **Itemized medical expense deductions:** Remain largely the same. The deduction threshold drops back to 7.5 percent of adjusted gross income for 2017 and 2018, but reverts to 10 percent in the following years.
- **Some above-the-line deductions:** Remain the same, including $250 of educator expenses and $2,500 of qualified student loan interest.
- **Gift tax exclusion:** Remains and increases to $15,000 from $14,000 for 2018.

Farewell to the healthcare individual mandate penalty

One of the changes in the tax act is the suspension of the individual mandate penalty in the Affordable Care Act (also known as "Obamacare"). The penalty is set to zero starting in 2019, but remains in place for 2018 and prior years.

New 2018 tax bracket structures for individuals

Single taxpayer

Taxable income over	But not over	Is taxed at
$0	$9,525	10%
$9,525	$38,700	12%
$38,700	$82,500	22%
$82,500	$157,500	24%

$157,500	$200,000	32%
$200,000	$500,000	35%
$500,000		37%

Head of household

Taxable income over	But not over	Is taxed at
$0	$13,600	10%
$13,600	$51,800	12%
$51,800	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$500,000	35%
$500,000		37%

Married filing jointly

Taxable income over	But not over	Is taxed at
$0	$19,050	10%
$19,050	$77,400	12%
$77,400	$165,000	22%
$165,000	$315,000	24%
$315,000	$400,000	32%
$400,000	$600,000	35%
$600,000		37%

Married filing separately

Taxable income over	But not over	Is taxed at
$0	$9,525	10%
$9,525	$38,700	12%
$38,700	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$300,000	35%
$300,000		37%

This brief summary of the tax reform act is provided for your information. Any major financial decisions or tax-planning activities in light of this new legislation should be considered with the advice of a tax professional. Call if you have questions regarding your situation. Feel free to share this memo with those you think may benefit from it.