TAX CUTS AND JOBS ACT – affects all taxpayers

So how will the new tax reform affect you? And when? This new Tax Cuts and Jobs Act will affect about every US taxpayer but it's not effective until you file your 2018 tax returns. Many of the changes are effective through 2025. However, it is good to know how you can be affected before the end of this year for planning purposes. This article summarizes some of the highlights of the tax reform.

Tax Brackets

These changes took effect on January 1, 2018 and affects the tax returns to be filed in 2019. Most taxpayers will be affected by the tax act. Tax brackets have changed so mostly everyone may be in a new bracket however the brackets are decreasing. For example:

2017: Single taxpayer with taxable income of $40,000 will owe $5,739, a 25% bracket.
2018: Same taxpayer with taxable income of $40, 000 will have a liability of $4,740, 22%.

2017	10%	15%	25%	28%	33%	35%	39.6%
2018	10%	12%	22%	24%	32%	35%	37%

Over time, the tax brackets will be adjusted according to the Chained Consumer Price Index for All Urban Consumers (C-CPI-U), which will grow more slowly than previously. Most tax payers will be paying less however some will pay a marginally higher tax rate under the new act. An upper-middle class individual with a marginal tax rate of 33% will be up at 35%.

Exemptions

Personal and dependent exemptions will be eliminated in 2018 under the Tax Cuts and Jobs Act. Currently, the personal exemption is $4,000 each for the taxpayer, spouse and dependents. Beginning in 2018 through 2025, the exemptions will be eliminated. It is anticipated that in 2026 the personal and dependent exemption will begin again.

Child Tax Credit

The tax act increases the maximum Child Tax Credit from $1,000 to $2,000 per qualifying child under the age of 17 years. The refundable portion of the Child Tax Credit will increase from $1,000 to $1,400. The credit increase is effective through 2025. The Child Tax Credit is only allowed if the child has a social security number (SSN).

The Child Tax Credit phase-out more than doubles the range under the current law. The phase-out for taxpayers with a modified adjusted gross income of over $200,000, or $400,000 (MFJ), is in effect beginning in 2018. In 2026, the rules for the Child Tax Credit limits and phase-out reverts to 2017 law.

***New* Credit for Child Tax Credit**
The Child Tax Credit will offer an additional credit for taxpayers with qualifying child that do not qualify for the Child Tax Credit. In other words, if the qualifying child or other dependent is 17 and over, a credit of $500 may be possible. The qualifying non-child dependent can qualify for the credit without a SSN. The dependent can have either an Individual Tax Identification Number (ITIN) or an Adoption Tax Identification Number (ATIN) to qualify. Taxpayers cannot claim the credit for themselves. In 2026, this credit will no longer be offered.

Standard Deductions
So, there the personal exemption is no longer available from 2018 through 2025 however the standard deductions will increase. In 2018, the standard deductions will be:

Single	$12,000
Head of Household	$18,000
Married Filing Jointly	$24,000

With the increase in standard deductions, many taxpayers may not need to itemize their deductions on Schedule A. There are also changes to rules of deductible expenses as well. This also brings a savings on tax preparation costs. The taxpayer may want to keep track of their deductible expenses though to compare which is more beneficial.

Itemized Deductions Changes
In 2017, approximately 30% of taxpayers will itemize deductions on Schedule A instead of utilizing the standard deductions. With the changes in the new Tax Act, several deductions will either be eliminated, limited or modified.

Eliminated:
- Miscellaneous deductions – subject to a 2% threshold of adjusted gross income (AGI)
  - Employee business expenses
  - Tax preparation fees
  - Investment interest expenses
- Personal casualty and theft losses – except in federally declared disaster areas

Limited:
- State and local income taxes (SALT) and Real Property taxes – limited up to $10,000 combined ($5,000 if MFS). Foreign real property taxes will no longer be deductible.
- Home mortgage interest
  - Home equity loans interest no longer deductible
  - New home mortgage interest – limited to interest paid on a maximum of $750,000 ($375,000 MFS) of a new mortgage after December 14, 2017
  - Mortgages taken before December 15, 2017:

- Claim interest up to $1 million ($500,000 MFS) including a refinanced mortgage taken before December 15, 2017.

Modified:
- Charitable contributions – expanded for taxpayers to deduct up to 60% of their AGI
- Gambling losses – remain same up to the extent of gambling winnings. The definition of losses has changed.
- Medical expenses – remains deductible with a 7.5% of AGI. However, in 2019, threshold increases to 10% of AGI

Additional changes to deductions:
- Overall limit on itemized deductions (Pease limit) is eliminated
- Most of changes effective through tax year 2025 returning to 2017 rules in 2026.

"Above-the-line" Deductions – many have also been eliminated, limited, or modified.

Eliminated
- Alimony – deductions for payments ordered after December 31, 2018. Payments under existed orders have no change for reporting purposes.
- Tuition and fees – deduction expired under previous law and not extended under new act.
- Domestic production activities deduction

Modified:
- Moving expenses will be eliminated *except* for members of military that relocate under military orders

No changes:
- Educator expense deduction – K-12 educators can claim up to $250 in unreimbursed expenses
- Student Loan Interest – up to $2,500 for qualifying taxpayers can be deductible
- Health savings account deductions
- IRA deduction
- Self-employed taxpayers' deductions – SE tax, SE health insurance, SE qualified retirement plans contributions

Education benefits – many have also remained the same or modified.

- American Opportunity Credit – no change
- Lifetime Learning Credit – no change
- Education assistance programs remain – savings bonds, employers' plans, 529 plans and Coverdell education saving plans
    - Change: 529 plans can now be utilized for K-12 expenses - $10,000 per year limit per student
- Cancellation of student loans due to death or disability – tax-free!

Health Care Penalty

- Penalty for failure to have health insurance eliminated in 2019.
- Taxpayers with no coverage in 2017 and 2018 will face penalties

Self-employed New Deduction

- Self-employed taxpayers can deduct up to 20% of qualified business income
- Sole proprietorship, partnership, or S corporation
- Some limitations
- Example: Taxable business income of $50,000 can receive a $10,000 deduction

What to do in 2018?

- Adjust Form W-4 to ensure correct withholding is in place
- Self-employed taxpayers modify quarterly estimated tax payments

Questions?

Contact Mir Taxes – info@mirtaxes.com
More Tax Issues Information: www.mirtaxes.com
Like us at https://www.facebook.com/MirTaxes/