

Tax Cuts and Jobs Act

for individuals



^{SCOTT J.}
Faye CPA PC

One Executive Blvd., Suite 103, Suffern, NY 10901

Tel (845) 368-1020 ■ Fax (845) 368-1153

Scott@FAYECPA.com ■ www.FAYECPA.com

What you need to know about the new tax law

It's time for U.S. taxpayers to get familiar with the major tax law changes reflected in the Tax Cuts and Jobs Act (TCJA) passed by Congress in late 2017. The TCJA cuts tax rates, ditches deductions and ultimately opens up a world of new tax savings opportunities for individuals. Here's what you need to know.

Individual tax rate brackets

Seven brackets still remain, but at reduced rates. The marriage penalty is eliminated for all except those in the top two brackets. This means that the income tax thresholds for married couples are now exactly double the thresholds for singles.

Planning tip: You may need to adjust your federal tax withholding with your employer to keep more of your money throughout the year.

Tax deductions

Here's a summary of some of the major changes to allowable deductions for individual taxpayers from the TCJA:

► **Standard deduction:** Standard deductions nearly double to \$12,000 for single filers and \$24,000 for married couples filing jointly. The personal exemption and phaseout of standard deductions have been suspended.

► **State and local taxes:** The TCJA limits the deduction to \$10,000 annually for property, income and sales tax combined.

► **Mortgage interest:** The deductibility of mortgage interest is reduced to apply to no more than \$750,000 of acquisition indebtedness incurred after Dec. 14, 2017. Deductible interest on existing mortgages is unaffected by the new cap.

UPDATE: The TCJA also suspends the deduction for interest paid on home equity loans and lines of credit, unless they are used to buy, build or substantially improve the taxpayer's home that secures the loan.

► **Medical expenses:** The deduction threshold has changed to 7.5 percent of Adjusted Gross Income (AGI) for 2017 and 2018, but reverts to 10 percent in the following years.

► **Alimony:** While you can still deduct alimony paid in 2018, alimony payments that are part of new agreements or modifications made in 2019-2025 will not be deductible. Alimony received is also impacted.

► **Moving expenses:** Deductions for moving expenses are eliminated, except for active-duty military personnel.

Have you used these deductions in the past?

In addition to some of the deductions mentioned above, there are many more that are no longer available:

- Casualty losses (except for those in federally declared disaster areas)
- Domestic production activities deduction (DPAD)
- Miscellaneous expenses (deductions subject to the 2 percent of AGI)

Tax credits

Child Tax Credit: This credit increased to \$2,000 from \$1,000 (with \$1,400 of it being refundable even if no tax is owed). The phaseout threshold increased to \$400,000 (from \$110,000) for joint filers. This means that a larger percentage of parents with children age 16 and younger can now use this credit.

Family credit: Dependents who are not eligible for the Child Tax Credit can qualify for this new \$500-per-person tax credit.

Other important 2018 tax info

► **Estate tax:** The federal estate tax will now apply to fewer people, with the exemption doubled to \$11.2 million per individual (\$22.4 million for married couples). The maximum estate tax is 40 percent.

Planning tip: Consider updating your estate and wealth transfer strategies. Don't forget that individual state estate taxes will likely impact most taxpayers.

► **Kiddie tax:** Starting in 2018, the kiddie tax on the unearned income of children under age 19 (under age 24 for qualified students) will use the estates and trusts tax rate structure to determine income tax. This means it will be taxed anywhere from 10 percent to 37 percent.

Planning tip: Although initial unearned income will be subject to estates and trusts tax rates, higher amounts of unearned income may be taxed at a lower rate than parents' income tax rate.

► **IRA accounts:** Under the TCJA, you can no longer use the Roth "recharacterization" technique to convert a traditional IRA to a Roth IRA, and then undo the conversion before your tax return due date to minimize taxes.

Planning tip: Make sure you really want to convert your traditional IRA to a Roth in 2018, because you can't convert it back. This may shift the timing of Roth conversions until later in the year.

► **529 education savings plans:** Qualified distributions from these plans not subject to tax now include tuition payments for K-12 private schools.

Planning tip: You may be able to free up some funds when you rethink your family's school expenses. Consider using those tax-free distributions from 529 plans for elementary and secondary school tuition.

► **Alternative minimum tax (AMT) exemption increase:** The new law increases the AMT exemption for a married couple from \$84,500 to \$109,400 in 2018. The AMT exemption for single taxpayers also increases from \$54,300 to \$70,300.

Planning tip: The AMT will now impact far fewer taxpayers. See if you were affected by the AMT last year and take this change into account during your 2018 tax planning.

Individual health care mandate

According to the TCJA, the individual mandate penalty in the Affordable Care Act has been set to zero starting in 2019, but it remains in place for 2018.

If you don't have qualified health insurance for yourself or your dependent in 2018, you'll pay a penalty. There are certain exceptions to the penalty if you meet requirements related to income and health insurance access.



2018 tax brackets

Single taxpayer

Taxable income over	But not over	Is taxed
\$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

\$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

\$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

\$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%

TCJA checklist

Use this TCJA topics list as a reminder of items on your tax return that may affect tax deductions, credits, exemptions and other items that were part of your tax filing in 2017. This will help you determine what you need to pay attention to in 2018 and beyond. If you'd like to discuss these tax changes, give us a call.

- ☐ Standard deduction
- ☐ State and local taxes
- ☐ Miscellaneous expenses (subject to 2 percent of AGI)
- ☐ Mortgage interest
- ☐ Medical expenses
- ☐ Alimony
- ☐ Moving expenses
- ☐ Federal estate tax exemption
- ☐ Kiddie tax
- ☐ Child Tax Credit
- ☐ Casualty losses
- ☐ 529 education savings plans
- ☐ AMT

DISCLAIMER: This publication provides only summary information regarding the subject matter. Please call with any questions on how this information may affect your situation.

72-1411 • © Tenenz, Inc. • 800.888.5803 • www.tenenz.com

Tax Cuts and Jobs Act for individuals



SCOTT J.
Faye CPA PC

One Executive Blvd., Suite 103, Suffern, NY 10901

Tel (845) 368-1020 ■ Fax (845) 368-1153

Scott@FAYECPA.com ■ www.FAYECPA.com