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Tax Preparation, Bookkeeping, Payroll & More

2018 Tax Cuts and Jobs Act

On December 20, 2017, President Trump signed into law the tax reform bill known as the "Tax Cuts and Jobs Act," which became effective January 1, 2018. The tax cuts contained in the bill represent the most significant tax changes in more than 30 years. These changes won't affect the tax return you will be filing this year (for tax year 2017), but will affect your tax year 2018 return. Many of the changes, on the individual level, will expire at the end of 2025, unless further extended by the Congress. I have updated the figures in the Taxing Topics newsletter so you can still see the 2017 figures compared to the 2018 figures, but also wanted to provide you with a summary of some of the more important tax updates.

To understand the changes in some of the credits, you first must understand the difference between a "nonrefundable" and "refundable" credit.

- A ***nonrefundable tax credit*** means you get a refund only up to the amount you owe for taxes.
- A ***refundable tax credit*** means you get a refund, even if it is more than what you owe.

Personal Exemptions—For 2017 this deduction is $4,050 for each taxpayer and/or dependent listed on the tax return. For 2018 thru the end of 2025, there will be NO personal exemptions allowed.

Standard Deduction Amounts—The deduction amount has almost doubled to $12,000 for Individuals (up from $6,500), $18,000 for Head of Household (up from $9,350) and $24,000 for Married Filing Joint (up from $13,000). However, since the personal exemptions will no longer be available, your deduction isn't actually doubled. For example, a single filer would have been entitled to a $6,500 standard deduction and a $4,150 personal exemption in 2018, for a total of $10,650 in deduction. Under the new law, they would just get a $12,000 standard deduction. So, the actual benefit is $1,350.

Child Tax Credit—For 2017 this deduction was $1,000 per qualifying child and was a "nonrefundable credit". However, there was also an Additional Child Tax credit, if you owed no taxes, that was a "refundable" credit. The new legislation removed the Additional Child Tax credit and merged it with the Child Tax Credit. The amount of the credit has increased to $2,000 per qualifying child and will now be a "refundable" up to $1,400, subject to phase outs (see phase out thresholds in the newsletter).

Non-Child Dependent Credit—NEW "nonrefundable" $500 credit will be available for tax year 2018 for non-child dependents (i.e. elderly or disabled dependents or children over 17).

Schedule A—Itemized Deductions

State and Local Taxes (SALT) - The final bill keeps the deduction, but limits the total deductible amount to $10,000, including income, sales and property taxes.

Mortgage Interest—Mortgage interest can only be taken on mortgage debt up to $750,000 and only applies to mortgages taken after December 15, 2017, pre-existing mortgages are grandfathered in at $1,000,000. Also, "home equity debt" can no longer be deducted at all—previously $100,000 could be considered for a deduction.

Charitable Contributions—Taxpayers can deduct donations of as much as 60% of their income (up from a 50% cap).

Medical Expense—The threshold for the deduction has been reduced from the current 10% of AGI (signed into law with the Affordable Care Act) back to 7.5% of AGI. Unlike most other provisions of the bill, this is **retroactive to the 2017 tax year**.

NO LONGER AVAILABLE—Deductions that are no longer available as of the 2018 tax year include: Casualty and Theft Losses (except those attributable to a federally declared disaster), Unreimbursed Employee Expenses, Tax Preparation Expense, Other Miscellaneous Deductions (previously subject to the 2% AGI cap) and Moving Expenses.

Pass-Through Deduction—NEW—This deduction pertains to sole proprietorship, LLCs, partnerships and S Corporations. These businesses will now be able to deduct 20% of their pass-through income before the ordinary income tax rates are applied. There are phase out income limits that apply to "professional service" businesses (i.e. lawyers, doctors and consultants) which are set at $157,500 for single filers and $315,000 for married filing joint. The first $75,000 of past through income would be subject to an 8% tax rate.

Over →

"Obamacare" Penalties—The penalty for not maintaining health insurance was repealed. However, this change doesn't go into effect until 2019, so for 2017 & 2018, this penalty can still be assessed. See page 4 of Taxing Topics for more detail.

Corporate Tax Rate—Now a flat rate of 21% on all business profits. And, the corporate Alternative Minimum Tax of 20% has been repealed. Prior to tax reform, there were 8 different tax rates based on level of profits and ranging from 15% to 39%.

Capital Gains Taxes

Short-Term Capital Gains: These gains are still taxed as ordinary income. However, since the tax brackets applied to ordinary income have changed significantly, short-terms gains are likely going to be taxed at a different rate than they were before.

Long-Term Capital Gains: Tax rate income thresholds are similar to where they would have been under the old tax law. Following is a chart showing the tax brackets and income thresholds.

Long-Term Capital Gains Taxes				
Tax Rate	**Single**	**Married Filing Joint**	**Head of Household**	**Married Filing Separate**
0%	Up to $38,600	Up to $77,200	Up to $51,700	Up to $38,600
15%	$38,600—$425,800	$77,200—$479,000	$51,700—$452,400	$38,600—$239,500
20%	Over $425,800	Over $479,000	Over $452,400	Over $239,500
The 3.8% net investment income tax that applied to high earners remains the same and with the exact same income thresholds — $200,000 for single taxpayers and $250,000 for married filing joint.				

Tax Brackets —I have included an insert in this mailing with the 2017 tax brackets on one side and the NEW 2018 tax brackets on the other side. The following table shows what the 2018 tax brackets would have been if the tax reform legislation was not passed. You can use the Tax Rate Tables insert to compare these rates to the rates actually passed with the legislation.

The new tax rates and income levels have, for the most part, removed the so-called "marriage penalty." Here is a simplified version of how the marriage penalty works. Two single individuals each earned $90,000 per year. Under the old 2018 tax brackets, both would fall into the 25% bracket for singles. However, if they got married, their combined income of $180,000 would raise them into the 28% bracket. Under the new brackets, they would fall into the 24% tax bracket, regardless of whether they got married or not.

2018 Tax Rate Tables—Before Tax Reform Changes

Married Filing Joint

If taxable income is . . .	Then, tax is . . .
Not more than $19,050	10% of taxable income
Over $19,050 but not more than $77,400	$1,905.00 + 15% of excess over $19,050
Over $77,400 but not more than $156,150	$10,657.50 + 25% of excess over $77,400
Over $156,150 but not more than $237,950	$30,345.00 + 28% of excess over $156,150
Over $237,950 but not more than $424,950	$53,249.00 + 33% of excess over $237,950
Over $424,950 but not more than $480,050	$114,959.00 + 35% of excess over $424,950
Over $480,050	$134,244.00 + 39.6% of excess over $480,050

Head of Household

If taxable income is . . .	Then, tax is . . .
Not more than $13,600	10% of taxable income
Over $13,600 but not more than $51,850	$1,360.00 + 15% of excess over $13,600
Over $51,850 but not more than $133,850	$7,097.50 + 25% of excess over $51,850
Over $133,850 but not more than $216,700	$27,597.50 + 28% of excess over $133,850
Over $216,700 but not more than $424,950	$50,795.50 + 33% of excess over $216,700
Over $424,950 but not more than $453,350	$119,518.00 + 35% of excess over $424,950
Over $453,350	$129,458.00 + 39.6% of excess over $453,350

Single

If taxable income is . . .	Then, tax is . . .
Not more than $9,525	10% of taxable income
Over $9,525 but not more than $38,700	$952.50 + 15% of excess over $9,525
Over $38,700 but not more than $93,700	$5,328.75 + 25% of excess over $38,700
Over $93,700 but not more than $195,450	$19,078.75 + 28% of excess over $93,700
Over $195,450 but not more than $424,950	$47,568.75 + 33% of excess over $195,450
Over $424,950 but not more than $426,700	$123,303.75 + 35% of excess over $424,950
Over $426,700	$123,916.25 + 39.6% of excess over $426,700

Married Filing Separate

If taxable income is . . .	Then, tax is . . .
Not more than $9,525	10% of taxable income
Over $9,525 but not more than $38,700	$952.50 + 15% of excess over $9,525
Over $38,700 but not more than $78,075	$5,328.75 + 25% of excess over $38,700
Over $78,075 but not more than $118,975	$15,172.50 + 28% of excess over $78,075
Over $118,975 but not more than $212,475	$26,624.50 + 33% of excess over $118,975
Over $212,475 but not more than $240,025	$57,479.50 + 35% of excess over $212,475
Over $240,025	$67,122.00 + 39.6% of excess over $240,025