

Martin A. Darocha, CPA  
What the Tax Reform Bill Means for You  
December 2017

Congress has passed tax reform 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 bill, which is expected to be signed into law soon.

You can use this memo as a high-level overview of some of the most significant items in the new bill. Because major tax reform like this happens so seldom, it may be worthwhile for you to schedule a tax-planning consultation early in the year to ensure you reap the most tax savings possible during 2018.

**Key changes for individuals:**

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

- **Reduces income tax brackets:** The bill 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 charts below).
- **Doubles standard deductions:** The standard deduction nearly doubles to \$12,000 for single filers and \$24,000 for married filing jointly. To help cover the cost, personal exemptions and most additional standard deductions are suspended.
- **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 newly acquired homes, mortgage interest will be deductible only for mortgages of less than \$750,000. Existing homeowners are unaffected by the new cap. The bill also suspends the deductibility of interest on equity debt.
  - **Limit of theft and casualty losses:** Deductions are now available only for federally declared disaster areas.
  - **No more 2 percent miscellaneous deductions:** Most 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. To the extent you can, make any remaining itemizable expenditures before the end of 2017.**
- **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 bill retains the alternative minimum tax but changes the exemption to \$109,400 for joint filers and 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:** Tax-deductible contributions to 529 education savings plans can now be used to pay tuition for students in K-12 private schools.
- **Doubles estate tax exemption:** Estate taxes will apply to even fewer people, with the exemption doubled to \$11.2 million (\$22.4 million for married couples).

**What stays the same for individuals:**

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- **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 educator expenses and student loan interest.
- **Gift tax deduction:** Remains and increases to \$15,000 from \$14,000 for 2018.
- **Kiddie tax threshold:** Remains at \$2,100 (amount of unearned income that can be taxed at your child's lower tax rate).

**Farewell to the healthcare individual mandate penalty**

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

- *Tip: Retain your Form 1095s this year, which will provide evidence of your healthcare coverage. Without it, you may have to pay the higher of \$695 or 2.5 percent of income, though 2018 may be the last year you'll need to worry about it.*

**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%

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**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%

**Key changes for small businesses:**

Here are some of these key items in the tax reform bill that affect businesses:

- **Cuts the corporate tax rate:** Corporate tax gets cut and simplified to a flat 21 percent rate, changed from a multi-bracket structure with a 35 percent top rate.
- **Reduces pass-through taxes:** Most owners of pass-through entities such as S corporations, partnerships and sole proprietorships will see their income tax lowered with a new 20 percent income reduction calculation.
- **Beefs up capital expensing:** Through 2022, short-lived capital investments in such items as machinery and equipment may be fully expensed as soon as they are placed in service, using bonus depreciation. This now also applies to used items instead of only new ones; they just need to be placed in service for the first time in your business. After 2022, allowable bonus depreciation is then lowered incrementally over the next four years.
- **Strengthens Section 179 deduction:** Section 179 deduction limits get raised to enable expensing of up to \$1 million, and the phaseout threshold increases to \$2.5 million. Section 179 may now also be used on expenses related to improvements to nonresidential real estate.
- **Nixes the corporate alternative minimum tax (AMT):** The 20 percent corporate AMT applied to businesses goes away entirely.
- **Expands use of cash-method accounting:** Businesses with less than \$25 million in gross receipts over the last three years may adopt the cash method of accounting.
- **Reforms international taxation:** Treatment of international income moves to the territorial system standard, in which foreign investments are generally only taxed in the place in which they operate. The new laws allow tax deductions for certain foreign-sourced dividends, reduced tax rates for foreign intangible income and reduced tax rates for repatriation of deferred foreign income.

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- **Repeals business entertainment deduction:** Businesses will no longer be able to deduct 50 percent of the cost of entertainment, amusement or recreation directly related to their trade or business. The 50 percent deduction for business-related meals remains in place, however.
- **Modifies several business credits:** Several business credits are maintained but modified, including the orphan drug credit, the rehabilitation credit, the employer credit for paid family or medical leave and the research and experimentation credit.
- **Boosts luxury automobile depreciation:** Luxury automobiles placed in service after 2017 will have allowable depreciation of \$10,000 for the first year, \$16,000 the second, \$9,600 the third and \$5,760 for subsequent years.

*This brief summary of the tax reform bill 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 particular situation.*

*Feel free to share this memo with those you think may benefit from it.*