2017 TAX CUTS & JOBS ACT

Individual Income Tax Provisions

The following includes the more notable income tax changes for individual taxpayers, and unless otherwise noted, the changes are effective for tax years 2018 through 2025.

Tax Rates and Brackets. The 2017 Tax Cuts and Jobs Act (TCJA) imposes a new tax rate structure with seven tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The top rate is reduced from 39.6% to 37% and applies to taxable income above $500,000 for single taxpayers and $600,000 for married couples filing jointly ("MFJ"). Not changed are the rates applicable to net capital gains and qualified dividends.

Standard deduction. The TCJA increases the standard deduction to $24,000 for MFJ, $18,000 for heads of household, and $12,000 for singles and married taxpayers filing separately. The amounts will be indexed for inflation after 2018. It is estimated that about 90% of taxpayers will use the standard deduction.

Exemptions. The TCJA suspends the deduction for personal exemptions, and starting in 2018, taxpayers can no longer claim personal or dependency exemptions.

Child and Family Tax Credit. The TCJA increases the credit for qualifying children (*i.e.*, children under 17) to $2,000 from $1,000, and increases the refundable portion of the credit to $1,400. It also introduces a new nonrefundable $500 credit for a taxpayer's dependents who are not qualifying children (*e.g.*, an elderly parent or disabled adult child). The adjusted gross income ("AGI") level at which the credits begin to be phased out has been increased to $200,000 ($400,000 for joint filers).

State and Local Taxes. The itemized deduction for state and local income and property taxes is limited to a total of $10,000 starting in 2018. This limit will have a substantial impact on whether taxpayers itemize or use the standard deduction.

Mortgage Interest. Under the TCJA, mortgage interest on loans used to acquire a principal residence and a second home is only deductible on debt up to $750,000 (down from $1 million), starting with debt incurred after December 14, 2017. The deduction for interest on home equity loans is eliminated, regardless of when the debt was incurred.

Miscellaneous Itemized Deductions. There is no longer a deduction for miscellaneous itemized deductions that were previously deductible to the extent they exceeded 2% of a taxpayer's AGI. This category included items such as tax preparation costs, investment expenses, unreimbursed employee expenses, and union dues.

Medical Expenses. Under the TCJA, medical expenses continue to be deductible to the extent they exceed a certain percentage of AGI. That percentage had been 10% of AGI for most taxpayers under prior law, but the new law temporarily decreases the threshold to 7.5% of AGI for all taxpayers for 2017 and 2018.

Casualty and Theft Losses. The itemized deduction for casualty and theft losses has been suspended except with respect to losses incurred in a federally declared disaster.

Overall Limitation on Itemized Deductions. The TCJA suspends the overall limitation on itemized deductions that had reduced the deduction available to taxpayers whose AGI exceeded specified thresholds. This limitation caused certain deductions to be reduced by 3% of the amount by which AGI exceeded the applicable threshold, although the reduction could not exceed 80% of the total itemized deductions.

Moving Expenses. The deduction for job-related moving expenses has been eliminated, except for certain military personnel, and the exclusion for moving expense reimbursements has been suspended.

Alimony. For agreements entered into after 2018, alimony will not be deductible by the paying spouse and will not be taxable income to the receiving spouse.

Health Care "Individual Mandate." After 2018, there is no longer a penalty for individuals who do not obtain minimum essential health coverage.

Alternative Minimum Tax (AMT). The TCJA keeps the AMT in place for individuals but increases the exemption to $70,300 for unmarried taxpayers, $109,400 for MFJ, and $54,700 for married taxpayers filing separately. That exemption is phased out for taxpayers with AMT income over $1 million for joint filers and over $500,000 for all others.

The Kiddie Tax. The rules for the "kiddie tax" were simplified, and now the net unearned income of a child subject to the rules will be taxed at the capital gain and ordinary income rates that apply to trusts and estates. As a result, a child's tax is unaffected by the parent's tax situation or the unearned income of any siblings.

New Deduction for "Qualified Business Income." Starting in 2018, taxpayers are allowed a deduction equal to 20% of "qualified business income," otherwise known as "pass-through" income, such as income from partnerships, S corporations, LLCs, and sole proprietorships. The income must be from a trade or business within the U.S. Investment income does not qualify, nor do amounts received from a partnership as a guaranteed payment for services provided to the trade or business or from an S corporation as reasonable compensation. The deduction is only used to determine taxable income and is not used in computing AGI.

For taxpayers with taxable income above $157,500 ($315,000 for MFJ) additional rules apply: (1) a limitation based on W-2 wages paid by the business and certain depreciable property used in the business is phased in, and (2) income from certain trades or businesses is phased out of qualified business income: health, law, consulting, athletics, financial or brokerage services, or where the principal asset is the reputation or skill of one or more employees or owners.

Section 529 Education Savings Plans: Section 529 Plans are now available to pay for tuition for elementary and secondary education, up to $10,000 per year, in addition to higher education expenses.