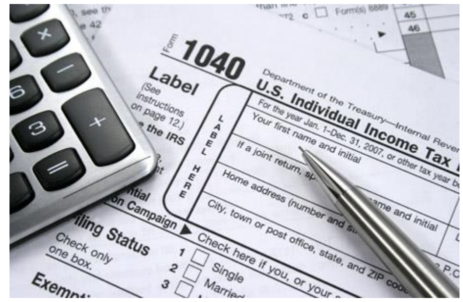
TCJA Changes the Tax Law: How will this impact me?

By Darin Dallimore, CPA – D2 Accounting Solutions, PLLC



There has been a lot of buzz and discussion around the recently passed tax law or the Tax Cuts and Jobs Act ("TCJA"). The various news cycles have spent many hours covering this hot topic since the bill was first introduced in Congress to it finally becoming law with President Trump's signature on December 22, 2017. As a CPA, I am receiving many questions from clients, family, and neighbors about how this new law will impact them. Unfortunately, there is no one size fits all answer because how tax law will impact a person depends greatly on his/her financial and household situation. However, I believe there are a number of changes to the tax law caused by TCJA that deserve to be mentioned because I feel they could have the biggest impact on the most individuals and families.

This article is meant to be a brief and non-technical (at least I hope) outline of those changes that could have the most impact; thus, I will not cover all the changes made to the tax code by TCJA. Unless otherwise noted below, the changes made by TCJA are effective for the 2018 tax year (i.e. tax returns filed in 2019).

Alright, let's dive into these changes.

1. The number of tax brackets stay the same but TCJA lowers the tax rate for all brackets except the 10% tax bracket. TCJA also changes the taxable income level at which taxpayers begin to enter the four highest tax brackets. Here is a comparison between the old and new tax law.

TABLE I: Married Filling Joint			
2018 Prior Law		**2018 New Law**	
Tax Rate	**Taxable Income Level**	**Tax Rate**	**Taxable Income Level**
10.0%	$0 - $19,050	10.0%	$0 - $19,050
15.0%	$19,050 - $77,400	12.0%	$19,050 - $77,400
25.0%	$77,400 - $156,150	22.0%	$77,400 - $165,000
28.0%	$156,150 - $237,950	24.0%	$165,000 - $315,000
33.0%	$237,950 - $424,950	32.0%	$315,000 - $400,000
38.0%	$424,950 - $480,050	35.0%	$400,000 - $600,000
39.6%	Over $480,050	37.0%	Over $600,000

TABLE II: Single			
2018 Prior Law		**2018 New Law**	
Tax Rate	**Taxable Income Level****	**Tax Rate**	**Taxable Income Level****
10.0%	$0 - $9,525	10.0%	$0 - $9,525
15.0%	$9,525 - $38,700	12.0%	$9,525 - $38,700
25.0%	$38,700 - $93,700	22.0%	$38,700 - $82,500
28.0%	$93,700 - $195,450	24.0%	$82,500 - $157,500
33.0%	$195,450 - $424,950	32.0%	$157,500 - $200,000
38.0%	$424,950 - $426,700	35.0%	$200,000 - $500,000
39.6%	Over $426,700	37.0%	Over $500,000

Here is a great comparison of how these rate changes will impact taxpayers who are married filing a joint return.

TABLE III: Married Filling Joint Tax Rate Change Comparison			
Taxable Income	**Tax Liability 2018 Prior Law**	**Tax Liability 2018 New Law**	**Difference in Tax Liability**
$19,050	$1,905	$1,905	$0
$77,400	$10,658	$8,907	$1,751
$156,150	$30,345	$26,232	$4,113
$237,950	$53,249	$45,687	$7,562
$424,950	$114,959	$100,112	$14,847
$480,050	$134,244	$119,397	$14,847
$750,000	$241,144	$216,879	$24,265

2. TCJA eliminates the personal exemption for an individual, his/her spouse, and qualifying dependents.

TABLE IV: Personal Exemption Comparison	
2018 Prior Law	**2018 New Law**
$4,150	$0

Under the old tax laws, the personal exemption deduction provided a tax savings ranging from $415 to $1,643, depending on your tax bracket (see **Table V**). This benefit is now lost under the new law.

TABLE V: Tax Benefit of Personal Exemption - 2018 Prior Law		
2018 Prior Law Tax Rate	**Personal Exemption Amount**	**Tax Benefit**
10.0%	$4,150	$415
15.0%	$4,150	$623
25.0%	$4,150	$1,038
28.0%	$4,150	$1,162
33.0%	$4,150	$1,370
38.0%	$4,150	$1,577
39.6%	$4,150	$1,643
** Multiple the "Tax Benefit" amount by total number of dependents to arrive at total tax benefit.		

3. The standard deduction is increased under TCJA. This increase will likely mean fewer people will claim itemized deductions[1] on future tax returns. Check page 2, line 40 of your 2017 Federal Form 1040. If this amount is less than the new standard deduction listed in **Table VI** below, then you likely will not claim any itemized deductions in 2018 but instead claim the standard deduction.

TABLE VI: Standard Deduction Comparison		
Filling Status	**2018 Prior Law**	**2018 New Law**
Married, Joint	$12,700	$24,000
Single	$6,350	$12,000
Head of Household	$9,350	$16,000
Married, Separate	$6,350	$12,000

4. TCJA doubles the child tax credit for dependent children under age 17 (see **Table VII**) and increases the adjusted gross income ("AGI") phase-out threshold (see **Table VIII**).

TABLE VII: Child Tax Credit Comparison	
2018 Prior Law	**2018 New Law**
$1,000	$2,000

A $1,000 increase to the child tax credit seems great and is an attempt to make up for the tax benefit lost with the elimination of the personal exemption. This is true if you fall into the lower two tax brackets; however, as shown back in **Table V**, the old law's personal exemption tax benefit is better for those in the 25% or higher tax bracket as compared to a $1,000 tax credit increase.

TABLE VIII: AGI Phase-out Threshold		
Filling Status	**2018 Prior Law**	**2018 New Law**
Married, Joint	$110,000	$400,000
Single	$75,000	$200,000
Head of Household	$75,000	$200,000
Married, Separate	$75,000	$200,000

When AGI (page 1, line 39 of 1040) is above the phase-out threshold, the child tax credit starts to be reduced and possibly even eliminated entirely. With the increase of the threshold amount, more people should be able to take advantage of the full credit.

5. TCJA also makes the first $1,400 of the child tax credit refundable. Meaning you may be able to receive a refund up to $1,400 per qualifying child even if you have no tax liability.

6. In another attempt to correct the sting of eliminating the personal exemption deduction, TCJA provides a $500 nonrefundable credit for dependents 17 and older. Again referring back to **Table V**, this credit is only beneficial to individuals who fall into the 10% tax bracket. The tax benefit for

[1] Itemized deductions include deductions for medical expenses, property taxes, state income or sales tax, mortgage interest, and charitable contributions…just to name a few. The tax law allows a taxpayer to claim either the standard deduction or itemize his/her deductions. The amount claimed as a deduction is generally the higher of these two amounts.

the personal exemption under the old law would have been higher for individuals with income placing them in the 15% or higher brackets.

7. For individuals who may still be able to claim itemized deductions, TCJA makes the following changes to itemized deductions:

    - Eliminates all miscellaneous itemized deductions, including unreimbursed employee expenses (i.e. expenses you incur as an employee for which you are not reimbursed by your employer, such as work miles), tax preparation costs, investment advice fees…to name a few.
    - Limits the deduction for state and local taxes to $10,000. These taxes include sales tax, income tax, and property tax. There was no such limit under the old law.
    - Limits mortgage interest deduction to new mortgage debt up to $750,000 (previously this was $1 million). Mortgage debt incurred prior to change is not affected.
    - No interest deduction is allowed for current or new home equity debt. Previously, interest was deductible on the first $100,000 of home equity debt.
    - For all taxpayers, medical expenses are deductible if they exceed 7.5% of AGI. Under old law, the threshold was 10% of AGI.
    - The AGI limit on charitable contributions is increased to 60% of AGI as compared to 50% under the old law.
    - The overall limit on itemized deductions is repealed. Under old law, taxpayers over certain income levels would have their total itemized deduction amount reduced.

8. Funds from a section 529 plan can be used to pay elementary and high school expenses up to $10,000 on a per student basis. No such option was available under old tax law.

9. TCJA eliminates the deduction for all moving expenses except for members of the Armed Forces. Under old law, moving expenses could be deductible when certain requirements were met.

10. For divorces finalized after January 1, 2019, alimony is no longer considered taxable income to the payee spouse and deductible to the payor spouse. Under the old law, both alimony was considered taxable income to the recipient and deductible to the payor.

11. Starting in 2019, TCJA eliminates the individual mandate penalty on individuals who don’t have qualifying insurance under the Affordable Care Act. The old law imposes a penalty on any taxpayer and their dependents that do not carry qualified health insurance.

There are two additional areas of the tax law that changed with TCJA, which may also have an impact on a large number of individuals. Both are highly complex areas of the law so I will only mention them briefly.

First, TCJA expands the alternative minimum tax (“AMT’) exemption amount and phase-out limits. Without getting too technical, these changes are meant to reduce the number of taxpayers subject to AMT, which is a parallel tax system that requires taxpayers over a certain income level to calculate their tax twice and pay the higher amount.

Finally, TCJA creates a new 20% deduction for business income received from flow through businesses (sole proprietorships, partnerships/LLCs, and S-Corporations). Limits apply to what types of income qualify for the deduction and to taxpayers with taxable income above $157,500 (single) and $315,000 (married, filing joint). This is one of the most complex aspects of the new law and there many areas of this new deduction that need to be clarified through regulations and other guidance from the Treasury and IRS. More to come on this topic.

Tax law is a complicated issue so I highly recommend you seek the advice of a qualified tax professional to help you with your individual tax needs and how these new laws will impact you directly.

