

The TCJA's changes to individual income taxation



ARTICLE 04.20.18 DEAN DORTON

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While it is possible you missed it, it's doubtful. The first major reform of the federal tax code in 30 years was enacted into law at the end of December. Promising tax cuts for everyone, the bill is called the Tax Cuts and Jobs Act (TCJA). This article highlights some of the changes made to individual income taxation.

Individual tax rates

Under the new tax law, the individual income tax brackets are structured as follows:

Tax Rate	Single	Married Filing Jointly
10%	\$0 – \$9,525	\$0 – \$19,050
12%	\$9,526 – \$38,700	\$19,051 – \$77,400
22%	\$38,701 – \$82,500	\$77,401 – \$165,000
25%	\$82,501 – \$157,500	\$165,001 – \$315,000
32%	\$157,501 – \$200,000	\$315,001 – \$400,000
35%	\$200,001 – \$500,000	\$400,001 – \$600,000
37%	\$500,001+	\$600,001+

These rates are lower than the previous rates; however, not significantly lower. The big savings for individuals is to come through the near doubling of the standard deduction.

Personal exemptions and the standard deduction

The TCJA eliminates personal exemptions but compensates by increasing the standard deduction to \$12,000 single and \$24,000 married filing jointly (MFJ), indexed for inflation for tax years beginning after 2018. According to the Tax Foundation, nearly 70% of all filers take the standard deduction, meaning only 30% of filers itemize deductions. Therefore, even after the elimination of the personal exemption, when the lower rates are coupled with the increase in the standard deduction, the result should be a tax decrease for many taxpayers.

So what about the 30% that itemize deductions?

Every deduction on Schedule A has been modified to some extent. Accordingly, the 30% of taxpayers that have historically itemize deductions will be impacted.

Some of the more significant changes are described below. Unless otherwise noted, these changes are in effect for tax years beginning after December 31, 2017 and before January 1, 2026. Changes to deduction for medical and dental expenses

Under pre-TCJA tax law, the deduction for qualified medical expenses was allowed for qualified medical expenses exceeding 10% of adjusted gross income (AGI). This floor was reduced to 7.5% of AGI for taxpayers 65 and older; however, that provision expired on December 31, 2016. Under the TCJA, the 7.5% floor is extended through 2018.

Changes to state and local tax deduction

Under pre-TCJA law, taxpayers were entitled to a deduction, without limitation, equal to the state and local taxes (SALT) paid during the year. The deduction primarily consisted of state, local, and/or foreign real property and income taxes paid.

Under the new tax law, SALT deductions are capped at \$10,000. Since this has traditionally been one of the largest itemized deductions, it is anticipated that it will have one of the greatest impacts on taxable income. Changes to mortgage interest deduction

Under the TCJA, mortgage interest on loans used to acquire a principal residence and/or a second home remains deductible, but only on debt up to \$750,000. The limitation was \$1 million under prior tax law. Taxpayers with debt acquired on or before December 15, 2017 remain subject to the \$1 million limitation, as the new law is not applied retroactively.

Changes to charitable contributions deductions

Under the TCJA, the limit for cash contributions has been extended from 50% to 60% of the contribution base, which is generally a taxpayer's AGI. However, payments made to a college or university in exchange for the right to purchase tickets to an athletic event are no longer deductible.

Changes to miscellaneous itemized deductions

Under the new law, all miscellaneous itemized deductions that are subject to the 2% of AGI floor are no longer deductible. Common miscellaneous itemized deductions included unreimbursed employee expenses, investment expenses (i.e. brokerage fees), and tax preparation fees.

Is there more?

Yes, there is much more, but just three additional changes are discussed here.

Expanded use of Section 529 account funds: For distributions after December 31, 2017, "qualified higher education expenses" **include** tuition at an elementary or secondary public, private, or religious school, and various expenses associated with home schooling, up to a \$100,000 limit per tax year.

Individual alternative minimum tax (AMT): The TCJA doesn't repeal the AMT for individuals as was hoped for, but it does increase its exemption amounts. Before the TCJA, the individual AMT exemption for MFJ was \$86,200 and that amount was reduced by 25% of the amount by which the couple's alternative taxable income exceeded \$164,100. The TCJA increases the AMT exemption amount to \$109,400 MFJ and that amount is reduced by alternative taxable income above \$1 million.

Child tax credit: Under pre-TCJA tax law, individuals could claim a maximum child tax credit (CTC) of \$1,000 for each qualifying child under the age of 17. The CTC was phased out for taxpayers with AGI above certain threshold amounts.

The TCJA modifies the CTC by increasing the credit amount to \$2,000 per qualifying child and increasing the threshold amounts for the phase-out to \$400,000 MFJ and \$200,000 for all other returns. Additionally, \$1,400 of the CTC is refundable.

The talk has just begun. Much is yet to be determined about the changes enacted by the TCJA. There will be many more articles and discussions as issues and unintended consequences appear and regulations are issues. Be sure

and stay tuned.

As originally published in Kentucky CPA Journal