2018 Individual Tax Law

By now you have probably seen numerous articles about the new tax law named the "Tax Cuts and Jobs Act of 2017". Most of the articles we have seen focused mainly on the new tax brackets and the state and local tax deductions (SALT) changes. We know there is much more to this tax law that may impact you.

Here is our first look at some of the more pertinent individual tax law changes, along with some planning comments that may be helpful to you and your family.

We will be sending out a new article about the tax law changes for businesses shortly.

New 2018 Tax Brackets

Single Taxpayers	Married Taxpayers	Married Filing Separate	Head of Household	Individual Tax Rates
$0 - $9,525	$0 - $19,050	$0 - $9,525	$0 - $13,600	10%
$9,525 – $38,700	$19,050 - $77,400	$9,525 - $38,700	$13,600 - $51,800	12%
$38,700 - $82,500	$77,400 - $165,000	$38,700 - $82,500	$51,800 - $82,500	22%
$82,500 - $157,500	$165,000 - $315,000	$82,500 - $157,500	$82,500 - $157,500	24%
$157,500 – $200,000	$315,000 - $400,000	$157,500 - $200,000	$157,500 - $200,000	32%
$200,000 - $500,000	$400,000 - $600,000	$200,000 - $300,000	$200,000 - $500,000	35%
Over $500,000	Over $600,000	Over $300,000	Over $500,000	37%

Comments on the new income tax brackets:

- Relative to 2017, the new tax brackets will produce a small reduction in marginal tax brackets (1% to 4%) for most married couples, but a large reduction (up to 9%) for couples in the $250,000 - $300,000 range. Single taxpayers with earnings in the $150,000 - $400,000 range could see their marginal tax rate increase by 2% - 4%.

- In addition to tax rates dropping, the brackets were also expanded. For instance, a married couple with $315,000 of Taxable Income will be in the 24% marginal bracket. That same couple would have been in the old 33% bracket when their Taxable Income was only at $233,350.

- There is a "marriage penalty" with the new 2018 tax brackets for the 35% and 37% tax brackets. The 35% bracket for married couples starts at double that of a single-individual taxpayer. However, the bracket only continues through $600,000 of Taxable Income. The 37% bracket begins at $600,000 of Taxable Income for married couples vs. $500,000 for single-individuals.

- The phaseout of itemized deductions has been repealed, which limited itemized deductions when Adjusted Gross Income was over $315,350.

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Individual Deductions and Exemptions (AGI = Adjusted Gross Income)

Old Law - 2017	New Law - 2018	Planning Comments
Standard Deduction Single - $6,350 Married filing jointly - $12,700 Personal exemption (per person) - $4,050	Standard Deduction Single - $12,000 Married filing jointly - $24,000 Personal exemption Eliminated	**Taxpayers who have been on the edge of itemizing probably won't need to worry about itemizing starting in 2018.**

Child and Qualifying Dependent Credit

Old Law - 2017	New Law - 2018	Planning Comments
$1,000 credit with phase out starting at $75K (single) and $110K (married filing jointly) AGI.	$2,000 credit with phase out starting at $200K (single) and $400K (married filing jointly) AGI. Remains through 2025.	**The elimination of the Personal Exemption would have negatively affected families with children. This was, however, made up for with an increase to the Child Tax Credit.**

Kiddie Tax

Old Law - 2017	New Law - 2018	Planning Comments
Unearned income (generally investment income) in excess of $2,100 for children under 19 or full-time students under 24 was taxed at their **parent's highest tax rate**.	All unearned income for children under 19 or full-time students under 24 is now taxed at **trust tax rates** Remains through 2025.	***This is an under reported change.*** **Planning may need to change by emphasizing the use of 529 plans over UTMA accounts or post-tax accounts to transfer wealth from 1st to 2nd or 3rd generations.** **This will have the biggest impact on children (grandchildren) that have significant post-tax holdings and continue to receive gifts from family and/or have lower marginal tax brackets. The trust tax is 37% at just $12,500 of unearned income.**

Mortgage Interest Deduction

Old Law - 2017	New Law - 2018	Planning Comments
Could deduct acquisition indebtedness (mortgage interest) for up to $1M of primary home debt. Could deduct up to $100K of home equity indebtedness (equity line).	Can only deduct interest on the first $750K of primary home debt. **Loans made prior to December 16, 2017 are grandfathered in.** **No** deduction for home equity indebtedness. **No grandfathering.** Remains through 2025.	**Equity lines can still be used as an emergency reserve and a good source of debt in lieu of high interest debt (i.e. credit cards).** **There is now a greater incentive to treat second homes as "investment property" to take advantage of interest expense deductions.**

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State and Local Tax Deduction (SALT)

Old Law - 2017	New Law - 2018	Planning Comments
All state & local income taxes, as well as property taxes, could be used as itemized deductions	$10,000 aggregate cap on state, local and property tax deduction – both married and single ($5,000 for married filing separately).	**The doubling of the standard deduction takes the sting out of this limit to some degree. This will, however, affect taxpayers in higher income tax states and high property tax areas.**

Charitable Contribution Deductions

Old Law - 2017	New Law - 2018	Planning Comments
Cash donations to 501(c)(3) charities could be used as an itemized deduction up to **50%** of AGI.	Cash donations to 501(c)(3) charities can be used as an itemized deduction up to **60%** of AGI.	**Continue seeking out good charitable tax planning ideas.** **There is still a 30% AGI limit on gifting of appreciated stock/real estate.**

Alternative Minimum Tax Exemption changes

Old Law - 2017	New Law - 2018	Planning Comments
The exemption was $55,400 for single and $86,200 for married filing jointly AGI. The threshold that increases the alternative minimum tax to a higher rate was $123,100 single and $164,100 married filing jointly.	Exemption increased to $70,300 single/$109,400 married filing jointly. Threshold is increased to $500K single and $1M married filing jointly.	**Potentially eliminates the alternative minimum tax for a number of low and middle-income families that have high itemized deductions.** **Mitigates or reduces alternative minimum tax rates for higher income taxpayers.**

Capital Gains & Qualified Dividends

Filing Status and Adjusted Gross Annual Income - 2018				
Single	**Married Filing Jointly or Qualified Widow(er)**	**Married Filing Separate**	**Head of Household**	**Individual Tax Rates**
$0 - $38,600	$0 - $77,200	$0 - $38,600	$0 - $51,700	0%
$38,601 – $425,800	$77,201 - $479,000	$38,601 - $239,500	$51,701 - $452,400	15%
Over $425,800	Over $479,000	Over $239,500	Over $452,400	20%

- The tax rates and thresholds on capital gains and “qualified” dividends did **not** change.
- We still recommend the gifting of highly appreciated stock to family members that are not subject to kiddie tax (children and grandchildren over the age of 24) and have low(er) incomes ($38,600 for single and $77,200 for married filing jointly). Those family members could sell the gifted stock and pay -0- capital gains tax.
- We also continue to recommend using highly appreciated stock for charitable gifting. This is still a good way to receive a charitable deduction and eliminate the capital gains that would have resulted from the sale of the stock.

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Affordable Care Act (Obamacare) taxes

Old Law - 2017	New Law - 2018	Planning Comments
Net Investment Income (NII) tax of 3.8%. Medicare tax of .9% on wages. Individual mandate penalty - penalty assessed for not having health insurance coverage.	The 3.8% NII tax and the .9% Medicare tax on wages remains until 2023. The individual mandate penalty was eliminated.	**These taxes continue to affect higher income tax payers. It will be important to review the taxation of big income events and look for opportunities to potentially reduce or spread out the taxation of those events over multiple tax periods (if appropriate).**

529 Plans

Old Law - 2017	New Law - 2018	Planning Comments
Distributions from 529 college savings plans could be made for any qualified college and post secondary education expenses.	All previous college and post secondary education expenses can still be paid for. The new law now allows distributions to be used for K-12 private grade school or high school, up to $10,000 per year, per student.	**The new law expands the opportunity for parents and grandparents to fund the education expenses for their children and grandchildren.** **Many 529 plans offer state tax credits or deductions when plans are funded. These tax benefits can now benefit parents and grandparents over more tax years. Make sure to keep the contributed funds in the accounts for the required amount of time to qualify for the deductions or credits.** **529 contributions are considered gifts. Make sure to keep the new $15,000 per year gift tax exclusion in mind when making a contribution to a 529 plan.**

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