THE TAX CUTS AND JOBS ACT (of 2017)

Congress passed the Tax Cuts and Jobs Act on December 20, 2017. This Act affects every taxpayer. Here is how it will affect most 1040 filers. This compilation highlights the major changes and is not all-inclusive.

Unless noted, these changes **take effect on January 1, 2018**, and will **expire on December 31, 2025**. Changes that affect 2017 tax returns are highlighted in italics.

TAX RATES (applied to "Taxable" income, i.e., income after deductions/exclusions)

Tax Rate	Single	Head of Household	Married Filing Jointly or Surviving Spouse	Married Filing Separately
10%	Up to $9,525	Up to $13,600	Up to $19,050	Up to $9,525
12%	$9,526 to $38,700	$13,601 to $51,800	$19,051 to $77,400	$9,526 to $38,700
22%	$38,701 to $82,500	$51,801 to $82,500	$77,401 to $165,000	$38,701 to $82,500
24%	$82,501 to $157,500	$82,501 to $157,500	$165,001 to $315,000	$82,501 to $157,500
32%	$157,501 to $200,000	$157,501 to $200,000	$315,001 to $400,000	$157,501 to $200,000
35%	$200,001 to $500,000	$200,001 to $500,000	$400,001 to $600,000	$200,001 to $300,000
37%	$500,001 or more	$500,001 or more	$600,001 or more	$300,001 or more

STANDARD DEDUCTION

Single and Married Filing Separately = $12,000
Head of Household = $18,000
Married Filing Joint Return and Qualifying Widow(er) = $24,000

DEPENDENT CREDITS

The child tax credit is $2,000 per qualifying child under age 17, with $1,400 refundable. A credit of $500 is allowed for each dependent who is not a qualifying child. These credits will begin to phase out at AGI (Adjusted Gross Income) of $200,000 for Single and Head of Household and $400,000 for Married Filing Joint and Qualifying Widow(er). There is no credit allowed for the taxpayer or spouse.

ITEMIZED DEDUCTIONS

- Medical expenses are deductible subject to a 7.5% AGI exclusion for tax years ***2017*** and 2018. For 2019 and beyond the AGI exclusion is 10%.

- Property taxes and state and local income taxes or sales taxes paid are deductible up to a combined maximum of $10,000. Foreign real estate taxes are no longer deductible.

- Mortgage interest on acquisition debt (borrowing to buy, build or substantially improve the property) of up to $750,000 incurred ***after December 15, 2017*** is deductible on two personal residences. Interest on "old" acquisition debt of up to $1 Million in principal is grandfathered and remains deductible. The $1 Million principle limitation also applies to mortgage loans in place before December 15, 2017 that are subsequently refinanced, as long as the principle of the new refinanced debt does not exceed the principle balance of the loan being refinanced. There is no grandfathering of existing home equity debt. It is vitally important that homeowners keep separate track of acquisition and home equity debt, especially when refinancing and consolidating loans.

- Charitable contributions are deductible, subject to a 60% of AGI limitation.

- Casualty losses resulting from a Presidentially declared natural disaster are deductible.

PASS-THROUGH BUSINESS INCOME

Self-employed sole proprietors filing a Schedule C or C-EZ and general partners of a partnership/multiple member Limited Liability Company and shareholders of a sub-chapter S corporation reporting income on Schedule E from a Form K-1 can deduct 20% of business income. This is not a reduction to the amount reported on Schedule C or E that is carried over to Page 1 of the Form 1040, nor is it deducted as an adjustment to income reducing AGI. It is deducted from AGI to determine net taxable income. The deduction may be limited based on any W-2 wages received by a sub-S shareholder and phased-out for "personal service businesses", like the practices of accountants, doctors and lawyers, beginning at AGI of $157,500 for Single, Head of Household and Married Filing Separate, and $315,000 for Married Filing Joint and Qualifying Widow(er).

BUSINESS ASSET EXPENSING

Business activities can fully deduct the cost of certain equipment purchased ***after September 27, 2017***. The deduction is reduced on a graduated scale for purchases made on or after January 1, 2023.

KIDDIE TAX

The taxable income of a child attributable to earned income is taxed under the rates for single individuals, and taxable income of a child attributable to net unearned income is taxed according to the brackets applicable to trusts and estates.

ALTERNATIVE MINIMUM TAX (AMT)

The AMT exemption is $70,300 for Single and Head of Household, and $109,400 for Married Filing Joint and Qualifying Widow(er), and $54,700 for Married Filing Separate. The exemption begins to phase out at Alternative Minimum Taxable Income (AMTI) of $500,000 for Single, Head of Household, and Married Filing Separate and $1 million for Married Filing Joint and Qualifying Widow(er). The application of a 10% of AGI limitation to medical expenses in calculating AMTI does not apply for tax years ***2017*** and 2018.

WHAT IS GONE (beginning with 2018 tax returns filed in 2019)

- The deduction for personal and dependent exemptions.
- The deduction for alimony paid, and the inclusion in income of alimony received, resulting from divorce or separation decrees or agreements *executed after December 31, 2018*.
- The deduction for job-related moving expenses, *except* for active duty members of the Armed Forces who move pursuant to a military order and incident to a permanent change of station.
- The "Section 199" deduction for domestic production activities.
- The itemized deduction for home equity debt interest. This is interest on debt secured by a residence that is **not** used to buy, build, or substantially improve the residence (money used to pay down credit cards, buy a car, pay for college, etc.), regardless of what it is called by the bank or mortgage company.
- The itemized deduction for all Miscellaneous Expenses subject to the 2% of AGI exclusion, including employee business expenses, investment expenses, and tax return related filing, preparation, and audit fees and costs.
- The "Pease" reduction of itemized deductions based on AGI.

- The Obamacare "individual mandate" penalty for individuals who do not maintain "minimum essential health care coverage" for the entire year, effective January 1, 2019.

WHAT REMAINS UNCHANGED

- The special lower tax rates on long-term capital gains, capital gain distributions, and qualified dividends. The lower rates continue to be applied under the income brackets from the current law, and are not tied into the new tax rate brackets.

- The additional Standard Deduction amount for taxpayers age 65 or older and blind of $1,600 for single filers and $1,300 each for a married couple.

- The deduction of up to $250 in expenses for K-12 educators.

- The deduction for up to $2,500 of student loan interest.

- Gambling losses are deductible to the extent of reported gambling winnings on Schedule A.
  However, "professional" gamblers are not allowed to deduct related non-loss business expenses in excess of reported gambling winnings.

- The American Opportunity Credit and the Lifetime Learning Credit (Education Credits).

- The Adoption Credit.

- The Child and Dependent Care Credit.

- The exclusion from tax on the gain from the sale of a primary personal residence of up to $250,000 for singles and $500,000 for joint filers, subject to the 2 out of 5-year ownership and residency requirement.

- The step-up in basis for inherited assets.

OTHER CHANGES

- The maximum tax rate on "C" (regular) corporations is 21%. This change is permanent.

- The federal Estate Tax exemption is doubled, based on beginning the calculation at a base of $10 Million in 2011 and adjusting for inflation going forward. The 2018 exemption will be approximately $11.2 Million.