Tax Cut and Jobs Act 2017 – A Summary

On December 22, 2017, President Trump signed into law the *Tax Cuts and Jobs Act*. Not since 1986 have we seen such a dramatic change in the tax code. Business changes are permanent; individual changes are mostly set to expire at the end of 2025, unless Congress passes another law before then. Here are a few of the most notable changes that will affect individuals:

- Pass-thru Income Deduction of 20% of net business income from the following entities:
    - Sole Proprietorships and LLC's treated as a sole proprietorship
    - Partnerships and LLC's treated as partnerships
    - Subchapter S corporations and LLC's treated as Subchapter S corporations
    - Trusts and estates

  This deduction comes with many limits and qualifiers. It reduces taxable income, not adjusted gross income (AGI). It does not reduce self-employment tax liabilities.
- Tax rates: the number of tax rates did not decrease but the tax rates themselves did
- The estate and gift tax exemption increased to $11,200,000 for 2018. If you give a large gift you must file a gift tax return to qualify for the exemption
- The standard deduction increased
    - From $6,350 to $12,000 for singles and married filing separately
    - From $9,350 to $18,000 for head of household (single parents)
    - From $12,700 to $24,000 for married filing jointly
- The deduction for personal exemptions is eliminated
- The child tax credit increased from $1,000 to $2,000 per qualifying child, but only refundable for up to $1,400 if no offsetting taxes are payable
- A non-refundable tax credit of $500 is now available for other qualifying dependents who are not qualifying children
- Section 529 college plans are now expanded to include tuition expenses for public, private, or religious elementary or secondary school, limited to $10,000 per student
- The combined, total deduction for state or local income or sales taxes and real estate (property) taxes is capped at $10,000
- Mortgage interest paid on a primary or second home is capped at $750,000 of debt on mortgages acquired after December 15, 2017. Home equity loan interest is no longer deductible
- Casualty losses are only deductible if covered by specific federal disaster declarations.
- Moving expenses are no longer deductible except for active duty military personnel who move pursuant to a military order.
- Miscellaneous expenses subject to the 2% income threshold are no longer deductible. Some examples of these no-longer-deductible expenses are:
    - Employee business expenses
    - Job-hunting expenses
    - Professional and union dues
    - Tax preparation fees
- The penalty for failing to maintain minimum essential coverage for individuals is repealed (i.e. no more penalty for no insurance)

Tax Cut and Jobs Act of 2017 – How it Might Affect You

You might say "What does all of this mean for me? Cut to the chase!". Here are some examples of how that might affect your tax return.

W-2 wage earner, family of four, who typically take the standard deduction

Jack and Debby are married with two children aged 10 and 12, with a combined W-2 income of $105,000 and normally take the standard deduction.

Column1	Tax Year 2017	Tax Year 2018
Adjusted Gross Income	$105,000	$105,000
LESS: Standard Deduction	-$12,700	-$24,000
LESS: Personal Exemptions	-$16,200	$0
Taxable Income	$76,100	$81,000
TAX	$10,509	$9,699
Child Tax Credit	-$2,000	-$4,000
NET TAX	*$8,509*	*$4,699*

In this case, the new tax law should save the taxpayers about $3,800 in taxes…great!

W-2 wage earner, family of two, who typically itemize with significant employee business expenses:

Pat and Cheryl are married with no minor dependents. Their combined salaries are $135,000. Pat, a salesman, does not have a company car, and drives an average of 2,000 miles per month for work. The couple has other itemized deductions of taxes, interest, and contributions of $20,000.

Item	Tax Year 2017	Tax Year 2018
Adjusted Gross Income	$125,000	$125,000
Less: Itemized Deductions	-$30,340	-$20,000
Less: Personal Exemptions	-$8,100	$0
TAXABLE INCOME	$86,560	$105,000
TAX	*$13,121*	*$14,979*

In this case, the new tax law will *cost* these taxpayers about $1,858 in taxes…not so great!

W-2 wage earner, single person, who typically files a 1040-EZ

Sam is a single guy with no dependents, earning a salary of $55,000.

Item	Tax Year 2017	Tax Year 2018
Adjusted Gross Income	$55,000	$55,000
Less: Standard Deduction	-$6,350	-$12,000
Less: Personal Exemption	-$4,050	$0
Taxable Income	$44,600	$43,000
TAX	$6,895	$5,400

In this case, the new tax law should save this taxpayer almost $1,500…great!

W-2 wage and self-employment earners, family of two, who typically claim the standard deduction:

Tom and Kathy are married with no minor dependents. Their combined salaries are $92,000 and Tom has a sideline business with a net profit of $20,000.

Item	Tax Year 2017	Tax Year 2018
Total Income	$112,000	$112,000
Less: 1/2 SE tax	-$1,530	-$1,530
Adjusted Gross Income	$110,470	$110,470
Less: Standard Deduction	-$12,700	-$24,000
Less: Personal Exemptions	-$8,100	$0
Less: 20% Pass-thru credit	$0	-$4,000
Taxable Income	$89,670	$82,470
Income Tax	$13,896	$10,022
SE Tax	$3,060	$3,060
TOTAL TAX	*$16,956*	*$13,082*

In this case, the taxpayers should save about $3,800 in taxes…great!

In summary

As you can see, the changes are all over the map. Many taxpayers will see a significant tax savings, a few will see a tax increase. Your job is to *use* this information to your advantage. If you have a sideline business, a loss can help you but *so can a profit!* If you have children under 17, you will definitely see an improvement in your tax situation.

But if you are taxpayer who has large employee business expenses, *use this* as a negotiating tactic at your next salary review. You may ask for a company car, or perhaps an accountable reimbursement plan, or even just a larger raise to help cover the cost of your increased taxes. Your employer is likely benefitting from this tax law as the highest corporate tax rates dropped from 39% to *21%!* Your employer should be able to pass some of their tax savings on to you.

Let me help you plan for these changes. Tax planning sessions are an inexpensive way to take advantage of the new tax laws.