

Anchin Alert

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New Tax Law Brings Big Changes for Individual Taxpayers

On December 22nd, President Trump signed the Tax Cuts and Jobs Act of 2017 (“TCJA”) into law. It is the most sweeping federal tax legislation in more than three decades. While many of the new law’s provisions affect businesses, it also includes significant changes for individual taxpayers, most of which take effect for 2018 and expire after 2025. Here are some of the most notable changes.

Inflation adjustments

Under the TCJA, annual inflation adjustments will be calculated using the chained consumer price index (also known as C-CPI-U). This will increase tax bracket thresholds, the standard deduction, certain exemptions and other figures at a slower rate than is the case with the consumer price index currently used, potentially pushing taxpayers into higher tax brackets and making various breaks worth less over time. The law adopts the C-CPI-U on a permanent basis.

Tax brackets

The TCJA maintains seven income tax brackets but temporarily adjusts the tax rates as follows:

2017	2018-2025
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10%	10%
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15%	12%
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25%	22%
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28%	24%
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33%	32%
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35%	35%
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39.6%	37%
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The top rates, which currently kick in at \$418,400 of taxable income for single filers and \$470,700 for joint filers, will now take effect at \$500,000 and \$600,000, respectively. The brackets will continue to be adjusted for inflation.

Personal exemptions and standard deduction

For 2017, taxpayers can claim a personal exemption of \$4,050 each for themselves, their spouses and any dependents. If they choose not to itemize deductions, they can also take a standard deduction based on their filing status: \$6,350 for singles and separate filers, \$9,350 for head of household filers, and \$12,700 for married couples filing jointly.

For 2018–2025, the TCJA suspends personal exemptions but roughly doubles the standard deduction amounts to \$12,000 for singles and separate filers, \$18,000 for heads of households, and \$24,000 for joint filers. The standard deduction amounts will be adjusted for inflation beginning in 2019.

For some taxpayers, the increased standard deduction could compensate for the elimination of the exemptions, and perhaps even provide some additional tax savings.

But for those with many dependents or who itemize deductions, these changes might result in a higher tax bill – depending in part on the extent to which they can benefit from the family tax credits.

Family tax credits

The child credit was the subject of much debate during the reconciliation process, with some senators pushing to expand it more than either the original House of Representatives and Senate bills did. In the end, the negotiators opted to double the credit to \$2,000 per child under age 17 beginning in 2018. The maximum amount refundable (because a taxpayer's credits exceed his or her tax liability) is limited to \$1,400 per child.

The TCJA also makes the child credit available to more families than in the past. Under the new law, the credit doesn't begin to phase out until adjusted gross income exceeds \$400,000 for married couples or \$200,000 for all other filers, compared with the 2017 phaseouts of \$110,000 and \$75,000. The phaseout thresholds won't be indexed for inflation, though, meaning the credit will lose value over time.

The TCJA also includes, beginning in 2018, a \$500 nonrefundable credit for qualifying dependents other than qualifying children (for example, a taxpayer's 17-year-old child, parent, sibling, niece or nephew, or aunt or uncle).

These provisions all expire after 2025.

State and local tax deduction

The deduction for state income and sales taxes was another bone of contention, with congressional representatives from high-tax states protesting its proposed elimination. The deduction ultimately survived but has been scaled back substantially – and, of course, is available only to those who choose to itemize. With the increased standard deduction, it's expected that fewer taxpayers will do so.

For 2018–2025, taxpayers can claim a deduction of no more than \$10,000 for the aggregate of state and local property taxes and either income or sales taxes. Note, though, that the TCJA explicitly forbids taxpayers from claiming an itemized deduction in 2017 for prepayment of state or local income tax for a future year to avoid the dollar limitation applicable for future tax years. It doesn't, however, include such a prohibition against prepayment of property taxes for a future year.

Mortgage interest deduction

The TCJA tightens limits on the itemized deduction for home mortgage interest. For 2018–2025, it generally allows a taxpayer to deduct interest only on mortgage debt of up to \$750,000. However, the limit remains at \$1 million for mortgage debt incurred before December 15, 2017, which will significantly reduce the number of taxpayers affected. The new law also suspends the deduction for interest on home equity debt: For 2018–2025, taxpayers can't claim deductions for such interest at all, regardless of when the debt was incurred or how it's used.

Additional deductions, exclusions and credits

Here are some other tax breaks that have been affected by the TCJA:

Medical expense deduction. This itemized deduction lives on and is, in fact, enhanced for two years. The threshold for deducting such unreimbursed expenses is reduced from 10% of adjusted gross income (AGI) to 7.5% for all taxpayers for both regular and alternative minimum tax (AMT) purposes in 2017 and 2018. You may want to bunch eligible expenses into 2018 to the extent possible to maximize your deduction.

Miscellaneous itemized deductions subject to the 2% floor. This deduction for expenses such as certain professional fees, investment expenses and unreimbursed employee business expenses is suspended for 2018–2025. If you're an employee and work from home, this includes the home office deduction.

Moving expenses. The deduction for work-related moving expenses is suspended for 2018–2025, except for active-duty members of the Armed Forces (and their spouses or dependents) who move because of a military order that calls for a permanent change of station.

For 2018–2025, the exclusion from gross income and wages for qualified moving expense reimbursements is also suspended, again except for active-duty members of the Armed Forces who move pursuant to a military order.

Personal casualty and theft loss deduction. For 2018–2025, this deduction is suspended except if the loss was due to an event officially declared a disaster by the President.

Charitable contributions. For 2018–2025, the limit on the deduction for cash donations to public charities is raised to 60% of AGI from 50%. However, charitable deductions for payments made in exchange for college athletic event seating rights are eliminated. Also keep in mind that you must itemize to benefit from the charitable contributions deduction.

Alimony payments. For any divorce or separation instrument executed after December 31, 2018, alimony payments won't be deductible — and will be excluded from the recipient's taxable income. (In addition, any divorce or separation instrument executed on or before December 31, 2018, and modified after December 31, 2018 may also be subject to this disallowance.) The reason for this is that the recipient spouse would typically pay income taxes at a rate lower than the paying spouse. This change is permanent.

529 plan savings plans. 529 plan distributions used to pay qualifying education expenses are generally tax-free. The definition of qualified education expenses has been expanded to include not just postsecondary school expenses but also primary and secondary school expenses. This change is permanent.

Notably, the TCJA leaves untouched many breaks that would have been reduced or eliminated under the original House or Senate bills, such as the:

- Principal residence gain exclusion,
- Exclusion for employer-provided adoption assistance,
- Lifetime Learning credit,
- Deduction for student loan interest, and
- Deduction for graduate student tuition waivers.

Also on the plus side, the law suspends the overall limitation on itemized deductions for 2018–2025.

AMT and estate tax

The House lost the battle over repeal of the AMT and the estate tax — both continue to apply. But the TCJA makes them applicable to fewer taxpayers than in the past.

Beginning in 2018, the new law increases both the AMT exemption amount (to \$109,400 for married couples, \$70,300 for singles and heads of households, and \$54,700 for separate filers) and the AMT exemption phaseout thresholds (to \$1 million for married couples and \$500,000 for all other taxpayers other than estates and trusts). These amounts will be adjusted for inflation until the provision expires after 2025.

Similarly, the TCJA doubles the estate tax exemption to \$10 million for 2018–2025. The exemption is adjusted for inflation and is expected to be \$11.2 million for 2018. But because the exemption doubling is only temporary, taxpayers with assets in the \$5 million to \$11 million range (twice that for married couples) will still have to keep estate taxes in mind in their planning.

Roth conversions

Taxpayers who convert a pretax traditional IRA into a posttax Roth IRA lose their ability to later “recharacterize” (that is, reverse) the conversion. Those who wish to recharacterize a 2017 Roth conversion must do so by December 31, 2017. Recharacterization is still an option for other contributions, though. For example, an individual can make a contribution to a Roth IRA and subsequently recharacterize it as a contribution to a traditional IRA (before the applicable deadline).

Contact us with questions

As with any piece of massive legislation, many questions about implementation and impact linger unanswered. We'll keep you apprised as more information becomes clear about how the TCJA will affect individual taxpayers. For more information, feel free to contact your Anchin Relationship Partner.



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