

# Highlights of Changes to Personal Income Tax Rules for 2018

# CAVEATS

- Not all inclusive, just some highlights
- Limited to rules for Personal Income Tax
  - Discussion of changes to corporate tax rules coming in February—Brenda
- Most changes apply after Jan 1, 2018
- All rule changes are not final yet
- See your Tax Professional or your preferred software

# Sources

- CCH
- TurboTax
- Wilmington Trust
- Principal Financial Services
- New York Times
- Tax Foundation
- Tax Policy Center
- Investopedia
- Morningstar

# Highlights

- Many changes (Personal) are Temporary (thru 2025)
- Reduces tax rates
- Eliminates Personal Exemptions
- Increases Standard Deduction
- Limits deduction for state & local taxes (SALT)
- Decreases size of interest-deductible mortgage
- Increases Child Tax credit
- Lowers floor for medical expenses
- Raises Estate Tax threshold
- Changes AMT eligibility

# Tax Rate Changes

- Maintains 7 Tax Brackets with new ranges:

Old	New
10%	10%
15%	12%
25%	22%
28%	24%
33%	32%
35%	35%
39.6%	37%

*Note: Tax brackets will be indexed using Chained-CPI (permanent change)*

# Temporary (thru 2025) Tax Schedule

## Income Tax

### For Single Taxpayers

		The Tax Is	
Taxable Income Over (\$)	But Not Over (\$)		Of the Amount Over
0	9,525	\$0 + 10%	\$0
9,525	38,700	\$952.50 + 12%	\$9,525
38,700	82,500	\$4,453.50 + 22%	\$38,700
82,500	157,500	\$14,089.50 + 24%	\$82,500
157,500	200,000	\$32,089.50 + 32%	\$157,500
200,000	500,000	\$45,689.50 + 35%	\$200,000
500,000	—	\$150,689.50 + 37%	\$500,000

### For Married Taxpayers Filing Joint Returns and Surviving Spouses

		The Tax Is	
Taxable Income Over (\$)	But Not Over (\$)		Of the Amount Over
0	19,050	\$0 + 10%	\$0
19,050	77,400	\$1,905 + 12%	\$19,050
77,400	165,000	\$8,907 + 22%	\$77,400
165,000	315,000	\$28,179 + 24%	\$165,000
315,000	400,000	\$64,179 + 32%	\$315,000
400,000	600,000	\$91,379 + 35%	\$400,000
600,000	—	\$161,379 + 37%	\$600,000

### For Married Taxpayers Filing Separate Returns

		The Tax Is	
Taxable Income Over (\$)	But Not Over (\$)		Of the Amount Over
0	9,525	\$0 + 10%	\$0
9,525	38,700	\$952.50 + 12%	\$9,525
38,700	82,500	\$4,453.50 + 22%	\$38,700
82,500	157,500	\$14,089.50 + 24%	\$82,500
157,500	200,000	\$32,089.50 + 32%	\$157,500
200,000	300,000	\$45,689.50 + 35%	\$200,000
300,000	—	\$80,689.50 + 37%	\$300,000

### For Individuals Filing as Head of Household

		The Tax Is	
Taxable Income Over (\$)	But Not Over (\$)		Of the Amount Over
0	13,600	\$0 + 10%	\$0
13,600	51,800	\$1,360 + 12%	\$13,600
51,800	82,500	\$5,944 + 22%	\$51,800
82,500	157,500	\$12,698 + 24%	\$82,500
157,500	200,000	\$30,698 + 32%	\$157,500
200,000	500,000	\$44,298 + 35%	\$200,000
500,000	—	\$149,298 + 37%	\$500,000

# Eliminates Personal Exemptions

- Old: Personal Exemption of \$4,050
- New: No Personal Exemption (\$0.00)

# Increase in Standard Deduction

- Old:
  - Single: \$6,500
  - Head of Household: \$9,550
  - Married filing jointly: \$13,000
- New:
  - Single: \$12,000
  - Head of Household: \$18,000
  - Married filing jointly: \$24,000
- *Maintains additional deduction (\$1,250) available to individuals who are blind or over 65*

# Limits SALT Deduction

- Old: No limit on deduction for state and local income, sales, or property taxes
- New: Maximum deduction of \$10,000

# Lowers Ceiling for Mortgage

- Old: Interest deductible on mortgages of \$1,000,000 and below (\$500K if married and filing separately)
- New: Interest deductible on mortgages of \$750,000 and below (\$375K if married and filing separately)
  - Applies to mortgages signed after Dec 15, 2017
  - 2<sup>nd</sup> home mortgage interest deductible within limit
  - Eliminates deduction for interest on Home Equity Loans

# Increases Child Tax Credit

- Old: Tax credit of \$1,000 per qualifying child
- New: Raises credit to \$2,000
  - Refundable up to \$1,400
  - AGI phaseout threshold raised to \$400K for MFJ
  - Provides \$500 nonrefundable credit for qualifying dependents other than children (children over 17, other adults)

# Lowers floor for Medical Expense Deduction

- Old: Threshold for deducting medical expenses is 10% of AGI
- New: Threshold lowered to 7.5% of AGI for tax years 2017 and 2018

# Increases Threshold for Estate Taxes

- Old: Estates up to \$5,490,000 exempt
- New: Threshold raised to \$10,000,000

# AMT Changes

AMT Remains as Part of the Tax Code

- Old: Income exemption for SF of \$54.3K and \$84.5K for MFJ
- New: Income exemptions raised to \$70,000 for SF and HoH; \$109,400 for MFJ
  - Available at higher income levels
    - \$500,000 for individuals
    - \$1,000,000 for MFJ

# Taxes on Qualified Dividends and LTC Gains

- Old: Three rates (0%, 10%, 15%) mapped directly to tax brackets
- New: Same rates, new income levels
  - 0%: Single taxpayers: between \$0 and \$38.6K  
MFJ income up to \$77.2K
  - 15%: Single taxpayers: between \$38.6K - \$425.8K  
MFJ income between \$77.2K and \$479K
  - 20%: Single taxpayers: income over \$425.8K  
MFJ income over \$479K

# Miscellaneous

- Lowers individual mandate penalty to \$0 effective Jan 1, 2019 (ACA or ObamaCare)
- Eliminates deductions for alimony, tax preparation expense, investment fees and expenses, student loan interest, personal casualty loss (except for disasters)
- Raises limit on cash gifts to public charities from 50% of AGI to 60%
- Up to \$10K of funds in 529 Plans can be used for qualifying expenses for grades K through 12
- No change to Medicare surtax rate of 3.8% on netinvestment income

# Summary

- Changes range from minor to significant depending on your filing status, financial situation, and other conditions
- Many changes on the Personal side are temporary
- See your tax professional or software of your choice

*FYI: Information on Corporate Taxes coming in Feb*

# Consumer Price Index

CPI: A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The *CPI* is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance.

# Chain-weighted CPI

C-CPI: A time series measure of price levels of consumer goods and services created by the Bureau of Labor Statistics as an alternative Consumer Price Index. It considers product substitutions made by consumers and other changes in their spending habits. The chain-weighted CPI is therefore considered to be a more accurate inflation gauge than the traditional fixed-weighted CPI, because ...it accounts for the fact that consumers' purchasing decisions change along with changes in prices. ...the U.S. Bureau of Labor Statistics maintains that the chain-weighted CPI is a closer approximation to a cost-of-living index than other CPI measures.

- Note: Most also agree that the C-CPI results in a lower value than the CPI





