2018 TAX CUTS AND JOBS ACT FOR INDIVIDUALS

The recently enacted Tax Cuts and Jobs Act (TCJA) is a sweeping tax package. Here's a look at some of the more important elements of the new law that have an impact on individuals. Unless otherwise noted, the changes are effective for tax years 2018 through 2025.

TAX RATES

The new law imposes a new tax rate structure with seven tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The top rate was reduced from 39.6 & to 37% and applies to taxable income above $500,000 for single taxpayers, and $600,000 for married couples filing jointly.

The rates applicable to net capital gains and qualified dividends were not changed. The "kiddie tax" rules were simplified. The net unearned income of a child subject to the rules will be taxed at the capital gain and ordinary income rates that apply to trusts and estates. Thus, the child's tax is unaffected by the parent's tax situation or the unearned income of any siblings.

STANDARD DEDUCTION

The new law increases the standard deduction to $24,000 for joint filers, $18,000 for heads of household, and $12,000 for singles and married taxpayers filing separately. Given these increases, <u>many taxpayers will no longer be itemizing deductions</u>. These figures will be indexed for inflation after 2018.

EXEMPTIONS

The new law suspends the deduction for personal exemptions. Thus, starting in 2018, taxpayers can no longer claim personal or dependency exemptions. The rules for withholding income tax on wages will be adjusted to reflect this change, but the IRS was given the discretion to leave the withholding unchanged for 2018.

NEW DEDUCTION FOR "QUALIFIED BUSINESS INCOME"

Starting in 2018, taxpayers are allowed a <u>deduction equal to 20% of "qualified business income</u>." Otherwise known as "pass-through" income, i.e. income from partnerships, S corporations, LLCs, and sole proprietorships. The income must be from a trade or business within the U.S. Investment income does not qualify, nor do amounts received from an S corporation as reasonable compensation or from a partnership as a guaranteed payment for services provided to the trade or business.

CHILD & FAMILY TAX CREDIT

The new law increases the credit for qualified children (i.e. children under 17) to <u>$2,000</u> from $1,000, and increases to $1,400 the refundable portion of the credit. It also introduces a new (nonrefundable) $500 credit for a taxpayer's dependents who are not qualifying children. The adjusted gross income level at which the credits begin to be phased out has been increased to $200,000 ($400,000 for joint filers).

STATE & LOCAL TAXES

The itemized deduction for state and local income and property taxes is limited to a total of <u>$10,000</u> starting in 2018.

CASUALTY & THEFT LOSSES

The itemized deduction for casualty and theft losses has been suspended except for losses incurred in a federally declared disaster.

MEDICAL EXPENSES

Under the new law, for 2017 and 2018, medical expenses are deductible to the extent they exceed 7.5% of adjusted gross income for all taxpayers.

MORTGAGE INTEREST

Under the new law, mortgage interest on loans used to acquire a principal residence and a second home is only deductible on debt up to $750,000 (down from $1 million), starting with loans taken out in 2018. And there is no longer any deduction for interest on home equity loans, regardless of when the debt was incurred.

MISCELLANEOUS ITEMIZED DEDUCTIONS

There is no longer a deduction for miscellaneous itemized deductions which were formerly deductible to the extent they exceeded 2% of adjusted gross income. This category included items such as tax preparation costs, investment expenses, union dues, and unreimbursed employee expenses.

OVERALL LIMITATION ON ITEMIZED DEDUCTIONS

The new law suspends the overall limitation on itemized deductions that formerly applied to taxpayers whose adjusted gross income exceeded specified thresholds. The itemized deductions of such taxpayers were reduced by 3% of the amount by which AGI exceeded the applicable threshold, but the reduction could not exceed 80% of the total itemized deductions, and certain items were exempt for the limitation.

MOVING EXPENSES

The deduction for job-related moving expenses has been eliminated, except for certain military personnel. The exclusion for moving expense reimbursements has also been suspended.

ALIMONY

For post-2018 divorce decrees and separation agreements, alimony will not be deductible for the paying spouse and will not be taxable to the receiving spouse.

HEALTH CARE "INDIVIDUAL MANDATE"

Starting in 2019, there is no longer a penalty for individuals who fail to obtain minimum essential health coverage.

ESTATE & GIFT TAX EXEMPTION

Effective for decedents dying, and gifts made, in 2018, the estate and gift tax exemption has been increased to roughly $11.2 million ($22.4 million for married couples).

ALTERNATIVE MINIMUM TAX (AMT) EXEMPTION

The AMT has been retained for individuals by the new law but the exemption has been increased to $109,400 for joint filers ($54,700 for married taxpayers filing separately), and $70,300 for unmarried taxpayers. The exemption is phased out for taxpayers with alternative minimum taxable income over $1 million for joint filers, and over $500,000 for all others.

SECTION 529 PLAN

Qualified higher education expenses now include expenses for tuition in connection with enrollment of attendance at an elementary or secondary public, private, or religious school. Thus, tax-free distributions for 529 plans can now be received by beneficiaries who pay these expenses, effective for distributions for 529 plans after 2017.

There is a limit to how much of a distribution can be taken from a 529 plan for these expenses. The amount of cash distributions from all 529 plans per single beneficiary during any tax year can't, when combined, include more than $10,000 for elementary school and secondary school tuition incurred during the tax year.

Reminder: Oregon residents can take a deduction each year for contributions made to a qualifying Oregon college savings plan. The total tax deduction allowed per individual donor for 2017 was $2,330. The 2018 deduction limit has not yet been released.

HOYLE & COMPANY, INC.
5285 MEADOWS ROAD, SUITE 440
LAKE OSWEGO, OR (503) 222-5979