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The Tax Cuts and Jobs Act (TCJA)

Introduction and Overview. The Tax Cuts and Jobs Act of 2017 (TCJA) became law in December 2017. In this whitepaper, we will summarize many of the important provisions of the TCJA. Since we primarily serve individuals and families rather than corporations, we will focus on personal tax issues. In addition, we will illustrate the effect of the TCJA on single taxpayers and married filing jointly taxpayers (these categories make up about 90% of all tax filers). However, there are two other filing categories as well: married filing separately and heads-of-households. Finally, many of the new provisions that we discuss will "sunset" (expire) on December 31, 2025.

Marginal Tax Brackets. The TCJA keeps the seven marginal tax brackets of the prior law. However, the TCJA lowers the marginal rates and increases the breakpoints. While the 10% and 35% brackets are the same as before, the other 5 brackets received a 1% to 4% reduction in rates.

Personal Income Tax Brackets in 2018

Single Taxpayers

Not over $9,525	10% of taxable income
Over $9,525 but not over $38,700	$952.50 + 12% of the excess over $9,525
Over $38,700 but not over $82,500	$4,453.50 + 22% of the excess over $38,700
Over $82,500 but not over $157,500	$14,089.50 + 24% of the excess over $82,500
Over $157,500 but not over $200,000	$32,089.50 + 32% of the excess over $157,500
Over $200,000 but not over $500,000	$45,689.50 + 35% of the excess over $200,000
Over $500,000	$150,689.50 + 37% of the excess over $500,000

Married Filing Jointly Taxpayers

Not over $19,050	10% of taxable income
Over $19,050 but not over $77,400	$1,905 + 12% of the excess over $19,050
Over $77,400 but not over $165,000	$8,907 + 22% of the excess over $77,400
Over $165,000 but not over $315,000	$28,179 + 24% of the excess over $165,000
Over $315,000 but not over $400,000	$64,179 + 32% of the excess over $315,000
Over $400,000 but not over $600,000	$91,359 + 35% of the excess over $400,000
Over $600,000	$161,379 + 37% of the excess over $600,000

The Standard Deduction. The TCJA substantially increased the amount of the standard deduction. In 2018, the standard deduction for single taxpayers is $12,000 while the standard deduction for married filing joint taxpayers is $24,000. In addition, single taxpayers age 65 and older get an additional standard deduction of $1,600, bringing their total standard deduction to $13,600, while married filing joint taxpayers age 65 and older get an additional standard deduction of $2,600, bringing their total standard deduction to $26,600. As a result of the increase in the amount of the standard deduction, many taxpayers will no longer itemize their deductions. The number of taxpayers who itemize their deductions is expected to decrease from about 47 million taxpayers to about 19 million taxpayers.

Personal Exemptions. The TCJA eliminates the deduction for personal exemptions. Under prior law, in 2018 taxpayers would have been able to deduct $4,050 for each qualified exemption.

Mortgage Interest Deduction. The TCJA allows taxpayers with existing mortgages to continue to deduct interest on up to $1,000,000 of debt on first and second homes. However, new home buyers are limited to an interest deduction on a total of $750,000 of debt for both first and second homes. The TCJA also eliminates deductions for interest paid on HELOCs (home-equity lines of credit).

State and Local Taxes (SALT). Under the TCJA, SALT deductions are capped at $10,000 per year, for both single and married filing joint taxpayers. SALT includes real estate taxes, personal property taxes and state and local sales taxes. Spouses cannot file separately and claim two $10,000 deductions for state and local taxes. If married couples file separately, each spouse is limited to a $5,000 deduction. The $10,000 SALT deduction cap is not indexed for inflation.

Miscellaneous Itemized Deductions. Under the TCJA, taxpayers can no longer deduct Miscellaneous Itemized Deductions. Miscellaneous Itemized Deductions used to be deductible subject to the 2% of Adjusted Gross Income floor. Miscellaneous Itemized Deductions include such items as fees for tax preparation (tax preparer fees, tax software and tax publications); fees for investment advice (investment advisor fees, investment software and investment publications); and, fees for trusts (trust administration and trust investment planning).

Tax on Long Term Capital Gains and Qualified Dividends. Under the TCJA, long term capital gains and qualified dividends receive favorable treatment. The tax rates are based on total taxable income:

Tax Rate	Single Taxpayers	Married Filing Joint Taxpayers
0%	Up to $38,600	Up to $77,200
15%	$38,601 to $425,800	$77,201 to $479,000
20%	$425,801 +	$479,000 +

The 3.8% Net Investment Income Surtax. Under TCJA, the 3.8% surtax on Net Investment Income remains in effect (it had been expected to be eliminated). Single taxpayers whose Modified Adjusted Gross Income (MAGI) exceeds $200,000, and Married Filing Joint taxpayers whose MAGI exceeds $250,000, must pay the surtax on their capital gains and dividends. The Net Investment Income Surtax thresholds are not indexed for inflation.

Chained CPI-U. Many items in the tax code are indexed to inflation i.e. the marginal tax rates, the standard deduction, etc. Under prior law, inflation was measured using the Consumer Price Index for Urban Consumers, commonly known as the CPI-U. The TCJA replaced the CPI-U with a metric the called Chained Consumer Price Index for Urban Consumers, commonly called Chained CPI-U. Chained CPI-U adjusts inflation slower than CPI-U by assuming that many consumers will substitute lower cost goods and services when the goods and services they normally buy have price increases. For example, from 2000 through 2017, the CPI-U rose 45.7% while Chained CPI-U only rose 39.7%. Replacing CPI-U with Chained CPI-U means that tax-bracket thresholds will rise s lower in the future, which will result in taxpayers paying higher income taxes.

Alternative Minimum Tax (AMT). The Alternative Minimum Tax was designed to force higher earning taxpayers to pay more taxes. Under AMT, taxpayers have to calculate taxes twice: first under the standard tax system and secondly under the alternative tax system. Taxpayers then have to pay whichever calculation results in the higher tax. When originally implemented, AMT exemptions were not indexed for inflation. As a result, over the years millions of lower earning taxpayers have been forced into the alternative tax system. The TCJA now adjusts AMT exemption amounts for inflation (see Chained CPI-U) and makes the exemption amounts higher.

Tax Status	2018 AMT Exemption	AMT Phaseout Levels
Single	$70,300	$500,000
Married Filing Jointly	$109,400	$1,000,000

Estate Tax Exemptions. Estates have to pay estate taxes when their assets exceed an exemption amount. Under the TCJA, the exemption amount in 2018 is $11,200,000 per person. The exemption amount is indexed for inflation (see Chained CPI-U). The exemption amount is portable, so that when one spouse passes away, the surviving spouse can use the exemption that was not used at the first death. This results in a total potential exemption of $22,400,000. As a result of the higher exemption amounts, most estates will no longer pay estate taxes.

The Estate Tax Rate. Some very large estates will still have to pay estate taxes. When they do, the federal estate tax rate is 40.00% on all taxable assets over the exemption amount (discussed above). Note: unlike many states, South Carolina does not have a “state estate tax”.

The Gift Tax Exclusion. Under TCJA, the annual gift tax exclusion is increased to $15,000 per donor, per year. Therefore, married couples can give $30,000 each year to as many people as they choose.

Estate and Trust Income Tax Rates. Estates and trusts must pay income taxes on their taxable income. The TCJA reduces the income brackets on estates and trusts from five brackets to four brackets, as follows:

Taxable Income	Tax Rate / Amount
Under $2,500	10% of taxable income
$2,501 to $9,150	$255.00 plus 24% of the excess over $2,550
$9,151 but not over $12,500	$1,839 plus 35% of the excess over $9,150
Over $12,500	$3,011.50 plus 37% of the excess over $12,500

Roth IRA Recharacterizations. Many taxpayers decide to convert their traditional tax-deferred IRAs into tax-free Roth IRAs. After doing so, they sometimes change their mind. Under prior law, taxpayers could recharacterize their Roth IRA conversion as a contribution to a traditional tax-deferred IRA, within a specified time-period. However, TCJA prohibits Roth IRA recharacterizations.

529 Education Plans. Many parents and grandparents set aside money in 529 Education Plans for the benefit of their children and grandchildren. The money deposited in these plans grows income tax-free and distributions made from these plans for qualified education expenses are income tax free. Before TCJA, only college expenses qualified for tax-free distributions. However, under TCJA, 529 plans can now distribute up to $10,000 per year to cover the cost of private and religious schools from K-1 through high school. In addition, 529 plans can now be used to pay for home – schooling expenses such as books, fees for online classes and expenses for non-related tutors.

Medical Expense Deductions. The TCJA temporarily enhances the medical expense deduction. The threshold for the deduction is reduced from 10% to 7.5% of adjusted gross income in both 2018 and 2019. In 2020, the medical expense deduction reverts to 10%.

Casualty Losses. The TCJA eliminates the deduction for casualty losses, unless the casualty loss was attributed to a Federally declared disaster.

1031 Like-Kind Exchanges. As a general rule, an exchange of property is a taxable transaction (just like a sale). Under prior law, taxpayers could exchange various types of like-kind property in order to postpone the recognition of capital gains. Under the TCJA, only like-kind real estate can be exchanged to postpone taxes.

Child Tax Credits. The TCJA increases the child tax credit to $2,000 for each child under age 17. The credit begins to phase out at $400,000 of taxable income for married filing joint couples and $200,000 of taxable income for single taxpayers. Families with dependents age 17 and older are limited to a $500.00 tax credit.

Mandate to Purchase Health Insurance. The TCJA repeals the mandate to purchase health care insurance. The mandate was a provision of the Affordable Care Act that penalizes individuals who do not buy health care insurance. Unlike most other provisions of the TCJA, this provision does not expire in 2025.

Charitable Contribution Limits. Under prior law, tax deductions for contributions made to public charities were limited to 50% of the taxpayer's adjusted gross income (AGI). Under the TCJA, the limit is increased to 60% of AGI. However, many taxpayers will no longer benefit from making charitable contributions because a taxpayer's itemized deductions will need to be greater than the taxpayer's standard deduction in order to benefit from itemizing deductions.

Qualified Charitable Distribution (QCD). Using a QCD instead of a normal charitable contribution can be advantageous to older taxpayers. A QCD allows an IRA owner age 70½ or older to make a charitable distribution directly from their IRA to a qualified charity in a tax-advantaged manner. First, a QCD is excluded from the IRA owner's income. Secondly, a QCD up to $100,000 counts as satisfying the IRA owner's Required Minimum Distribution (RMD) for the year. With a married couple, each spouse can make up to $100,000 in QCDs each year.

Alimony. Under the old law, alimony payments (and separate maintenance payments) were deductible by the person paying the alimony (who often was in a higher tax bracket), and reported as income by the recipient (who often was in a lower tax bracket). Under the TCJA, the paying spouse can no longer deduct the payments, while the receiving spouse will no longer have to report the payments as income. This provision applies to divorce and separate agreements entered into after December 31, 2018.

Moving Expenses. Under prior law, if you moved for work, you were able to deduct your moving expenses. And, if your employer paid your moving expenses for you, you didn't have to count that money as taxable income. However, the TCJA eliminates all deductions for moving (other than for members of the Armed Forces who move due to a military order). And, if your employer pays your moving expenses for you, you have to pay income taxes on the amount that was paid.

The Kiddie Tax. Under prior law, children under age 19, or full-time students under age 24, were taxed at their own individual tax brackets for earned income. However, their unearned income was stacked on top of their parents' income. This effectively taxed the child's unearned income at their parents top marginal tax rate. Under TCJA, instead of stacking the child's unearned income on their parent's income, the Kiddie Tax is calculated by subjecting the child's unearned income to trust tax brackets. And, as you can see on page 4, trust tax brackets are much higher than personal tax brackets.

In this whitepaper we have summarized many of the important provisions of the Tax Cuts and Jobs Act of 2017 (TCJA). The TCJA is comprised of over 2,000 pages of rules and regulations and is exceedingly complex. Therefore, we recommend that our readers contact a qualified CPA or tax attorney to help them understand how the TCJA impacts their personal tax situation.