The New Tax Law

What Individuals Need to Know

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Individual Tax Rates

	Pre-Reform 2018 Tax Rules			Post-Reform 2018 Tax Rules		
Individual tax rates	• Maximum tax rate is 39.6% • Rates associated with specific income brackets are designated below:			• Maximum tax rate reduced to 37% • Rates associated with specific income brackets are designated below:		
	Taxable income			**Taxable income**		
	Rate	**Single**	**Married**	**Rate**	**Single**	**Married**
	10%	$0-$9,525	$0-$19,050	10%	$0-$9,525	$0-$19,050
	15%	$9,526 - $38,700	$19,051 - $77,400	12%	$9,526 - $38,700	$19,051 - $77,400
	25%	$38,701 - $93,700	$77,401 - $156,150	22%	$38,701 - $82,500	$77,401 - $165,000
	28%	$93,701 - $195,450	$156,151 - $237,950	24%	$82,501 - $157,500	$165,001 - $315,000
	33%	$195,451 - $424,950	$237,951 - $424,950	32%	$157,501 - $200,000	$315,001 - $400,000
	35%	$424,951 - $426,700	$424,951 - $480,050	35%	$200,001 - $500,000	$400,001 - $600,000
	39.6%	Over $426,700	Over $480,050	37%	Over $500,000	Over $600,000

Key takeaway: There are still 7 brackets, but the rates have dropped in all but the lowest bracket.

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AMT & Deductions

	Pre-Reform 2018 Tax Rules	Post-Reform 2018 Tax Rules
Alternative minimum tax (AMT)	• Exemption amounts of \$86,200 (married) and \$55,400 (single) • Phase-out of exemption amount begins at \$164,100 (married) and \$123,100 (single)	• Exemption amounts increased to \$109,400 (married) and \$70,300 (single) • Phase-out of exemption amount begins at \$1,000,000 (married) and \$500,000 (single)
Individual standard deduction/personal exemptions	• Standard deduction is \$13,000 (married) and \$6,500 (single) • Personal exemption of \$4,150 phased out for higher incomes	• Standard deduction nearly doubled to \$24,000 (married) and \$12,000 (single) • Personal exemptions repealed at all income levels

Key takeaways:
We expect to see fewer middle income earners subject to AMT.
The standard deduction has doubled, but personal exemptions aren't allowed at any income level.

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	Pre-Reform 2018 Tax Rules	Post-Reform 2018 Tax Rules
Itemized deductions	• Deductions allowed but subject to the "PEASE limitation," which reduces availability of itemized deductions at income levels starting at $320,000 (married) and $266,700 (single)	• Individual deduction for state and local taxes (SALT) for income, sales and property is limited in the aggregate to $10,000 (married and single filers) and $5,000 (married filing separately) • "PEASE limitation" (including for charitable contributions) is repealed • Most miscellaneous itemized deductions that were subject to the 2% of AGI floor will no longer be allowed (e.g. tax preparation and investment expenses)
Capital gain /qualified dividend rate	• Maximum tax rate on long-term capital gains and qualified dividend income (before 3.8% net investment income tax) is 20%	• Unchanged
Medical expense deduction	• Floor of 10% of AGI before deduction can be taken	• Floor reduced to 7.5% of AGI for tax years 2017 and 2018
Cost of securities	• Investors have the ability to "specifically identify" which tax lot of a security is sold	• Unchanged

Key takeaways:

Individuals in high real estate tax states (e.g., NJ, NY) are going to take a hit starting in 2018.

Medical expense deductions remain, but floor reduced.

	Pre-Reform 2018 Tax Rules	Post-Reform 2018 Tax Rules
Mortgage interest	• Individuals are generally allowed an itemized deduction for interest on 1. Principal residence and second residence mortgages up to \$1,000,000 (married) or \$500,000 (single) (limit applies on a combined basis) 2. Home Equity Line of Credit (HELOC) up to \$100,000	• Individuals are generally allowed an itemized deduction for interest on principal residence and second residence mortgages up to a combined \$750,000 • Pre 12/16/17 mortgages are grandfathered and new purchase money mortgages may be grandfathered if the purchase contract is dated before 12/16/17 and other conditions are met • Refinancing of grandfathered mortgages are grandfathered, but not beyond the original mortgage's term/amount (some exceptions apply for "balloon payment" mortgages) • Interest on a HELOC is no longer deductible

Key takeaways:
The mortgage deduction remains, however, home buyers in expensive housing markets will take a hit on mortgages over $1 million.

	Pre-Reform 2018 Tax Rules	Post-Reform 2018 Tax Rules
Capital gain exclusion for primary residence	• Allows individuals to exclude gain of up to $500,000 (for joint filers) from the sale of a primary residence • Taxpayer must own and use the house as primary residence for 2 out of the previous 5 years and exemption can be used only once every 2 years	• Unchanged
Like-kind exchanges	• Allows for the disposal of an asset and the acquisition of another replacement asset without generating a current tax liability from the gain on the sale of the first asset • Applies to like-kind exchanges of real property as well as certain categories of personal property	• Limits applicability to like-kind exchanges of real property that is not held primarily for sale **This does not expire in 2025
Section 529 plans	• Distributions may be used for expenses relating to higher (post-secondary) education	• In addition to higher (post-secondary) education, distributions from 529 plans of up to $10,000/year per student can be used for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school **This does not expire in 2025

Key takeaways:

The rules for capital gains exclusions for a primary residence remain unchanged – which is good for the real estate market. Section 529 plans can now pay for elementary or secondary school – good news for parents.

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	Pre-Reform 2018 Tax Rules	Post-Reform 2018 Tax Rules
Pass-through deduction	• Income received from partnerships, S corporations, or sole proprietorships is passed-through to the owner's individual tax returns, where it is taxed as ordinary income	• There is a new 20% deduction for qualified business income from a partnership, S corporation, or sole proprietorship
Charitable deduction changes	• Cash gift to public charities is deductible as long as it doesn't exceed **50%** of the taxpayers Adjustable Gross Income (AGI) • 80% of value spent on university athletics seating rights can be deducted	• Cash gift to public charities is deductible as long as it doesn't exceed **60%** of the taxpayers Adjustable Gross Income (AGI) • 80% deduction for university athletic seating rights is repealed
Gift/estate/generation-skipping transfer (GST) tax exemption	• Estate, gift and GST tax exemptions are each $5.6 million per US domiciliary	• Doubles the estate, gift and GST tax exemptions to $11.2 million per US domiciliary • Like most individual provisions, the exemptions sunset after 2025 and revert back to the law in effect for 2017 with inflation adjustments; possibility for "clawback" at death if law is not changed

Key takeaways:

If you own a business, consult your tax advisor to see how the pass-through deduction applies to you.

Changes in charitable deductions and gift/estate taxes may help you feel more generous.

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More Resources for Individuals

The new tax law is complex and every taxpayer's situation is different – so don't go it alone.

- ✓ Learn more at the New Tax Law Explained for Individuals
- ✓ Contact KRS managing partner Maria Rollins, CPA, MST, at Mrollins@KRSCPAs.com or 201.655.7411 to discuss your situation.

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