Major changes await taxpayers in new law

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Will the Tax Cuts and Jobs Act (TCJA) bring the tax cuts that have been promised? . Now that the bill has passed, everyone wants to know how much they stand to save or lose.

Remember, these changes generally won't go into effect until after December 31, 2017. It pays to take a look at what's expected on the road ahead. What we do know for sure is that the new tax law is broad-reaching and complicated. And we believe more tax reform may be coming. We also are certain that each individual will be affected differently depending upon their personal financial circumstances.

On one hand, the new law makes small reductions to income tax rates for most individual tax brackets.

But on the other, the TCJA eliminates or limits many tax breaks. In addition, some of the tax relief for individual taxpayers may be available only temporarily.

Here are some of the key changes;

- Reductions in individual income tax rates ranging from 0 to 4 percentage points (depending on the bracket) to 10%, 12%, 22%, 24%, 32%, 35% and 37%
- The standard deduction will nearly double to $24,000 for married couples filing jointly), $18,000 for heads of households, and $12,000 for singles and married couples filing separately.
- Personal exemptions are eliminated.
- The child tax credit is doubled to $2,000 and there are other modifications intended to help more taxpayers benefit from the credit
- The adjusted gross income (AGI) threshold for the medical expense deduction is reduced to 7.5% for regular and AMT purposes — for only 2017 and 2018
- New $10,000 limit on the deduction for state and local taxes (on a combined basis for property and income taxes; $5,000 for separate filers)
- Reduction of the mortgage debt limit for the home mortgage interest deduction, to $750,000 ($375,000 for separate filers), with certain exceptions
- Elimination of the deduction for interest on home equity debt
- Elimination of the personal casualty and theft loss deduction (with an exception for federally declared disasters)
- Elimination of miscellaneous itemized deductions subject to the 2% floor (such as certain investment expenses, professional fees and unreimbursed employee business expenses)
- Elimination of the AGI-based reduction of certain itemized deductions
- Elimination of the moving expense deduction (with an exception for members of the military in certain circumstances)
- AMT exemption increase, to $109,400 for joint filers, $70,300 for singles and heads of households, and $54,700 for separate filers
- Doubling of the gift and estate tax exemptions, to $10 million (expected to be $11.2 million for 2018 with inflation indexing)

In addition, the new law permanently eliminates the individual mandate under the Affordable Care Act requiring taxpayers not covered by a qualifying health plan to pay a penalty. The elimination of the individual mandate is effective for months beginning after December 31, 2018. Also permanent is the expansion of tax-free Section 529 plan distributions to include those used to pay qualifying elementary and secondary school expenses, up to $10,000 per student per tax year.

Other proposals that Republican congressional leaders have discussed would address retirement and education savings, reorganize the IRS, delay some taxes funding the Affordable Care Act (such as the medical device tax and the health insurance provider fee), prevent abuses of the earned income tax credit and extend the benefits of some tax credits for renewable energy property, nuclear energy production and biodiesel.

In this time of change, your tax advisor can be a valuable resource, helping you stay atop the latest developments.

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