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6 Things You Need to Know about the New Federal Tax Law

The information contained in this document is not tax or legal advice. Please consult a tax professional or attorney for tax or legal advice.

Tax Cuts and Jobs Act of 2017

- The new tax law goes into effect for tax year 2018, with some changes starting in 2019
- Each family will be affected differently based on size of family, amount and type of income and other individual circumstances
- Individual tax changes are set to **expire** end of 2025, with some exceptions
- Business tax changes are **permanent**, with some exceptions
- Estimated cost of new tax law is approximately \$1.5 trillion dollars¹

¹<https://www.bloomberg.com/news/articles/2017-12-22/trump-signs-1-5-trillion-tax-cut-in-first-major-legislative-win>

No. 1: Personal income tax brackets

Tax Bracket Changes²

2018 (What You Would Have Paid)	Married (joint)
10%	0 to \$19,050
15%	\$19,050 to \$77,400
25%	\$77,400 to \$156,150
28%	\$156,150 to \$237,950
33%	\$237,950 to \$424,950
35%	\$424,950 to \$480,050
39.6%	\$480,050 and up

2018 (New Law)	Married (joint)
10%	0 to \$19,050
12%	\$19,050 to \$77,400
22%	\$77,400 to \$165,000
24%	\$165,000 to \$315,000
32%	\$315,000 to \$400,000
35%	\$400,000 to \$600,000
37%	\$600,000 and up

²<http://www.businessinsider.com/tax-brackets-2018-trump-tax-plan-chart-2017-12>



No. 2 Personal deduction changes

The new bill will nearly double the **standard deduction**.³

The **personal exemption**, providing a \$4,050 (2017) per person deduction, will be going away in 2018.³

	2017	2018
Individual	\$6,350	\$12,000
Head of household	\$9,350	\$18,000
Married, filing jointly	\$12,700	\$24,000

³<https://www.forbes.com/sites/kellyphillipsrb/2017/12/17/what-the-2018-tax-brackets-standard-deduction-amounts-and-more-look-like-under-tax-reform/#93a783114017>

No. 2: Personal deduction changes

- State and Local Tax (SALT) – deduction capped at \$10,000⁴
- Mortgage Interest⁴
 - Current mortgage holders maintain ability to deduct interest on mortgage up to 1M
 - New mortgage deductible limit caps at \$750,000 for new debt incurred
 - Deduction for existing or new interest on home equity debt goes away unless used for home acquisition or improvements, in most cases
- Medical Expense⁵
 - Taxpayers can deduct expenses that exceed 7.5% of Adjusted Gross Income (AGI) through 2018, goes back to 10% as of 2019
- Other miscellaneous deductions eliminated⁶
 - Those subject to the 2% AGI limitation will be gone in 2018, including investment fees and expenses, convenience fees for using a credit or debit card to pay your taxes, and other miscellaneous deductions

⁴https://www.washingtonpost.com/news/wonk/wp/2017/12/15/the-final-gop-tax-bill-is-complete-heres-what-is-in-it/?utm_term=.19b419e43d5c

⁵<https://www.forbes.com/sites/kellyphillips/b/2017/12/20/what-your-itemized-deductions-on-schedule-a-will-look-like-after-tax-reform/#7704d6e6334b>

⁶<https://www.usatoday.com/story/money/taxes/2017/12/26/these-9-tax-deductions-are-going-away-in-2018/108910040/>



No. 3: Child tax credit⁷

- The credit doubles from \$1,000 to \$2,000 per child for children under age 17
- \$1,400 of the \$2,000 is refundable, meaning low to middle income families may receive a refund even if net tax liability is zero
- The income thresholds have increased so that more individuals will be able to take advantage of this credit
- The bill also allows taxpayers to take a \$500 credit for each non-child (17 & up) dependent they are supporting

⁷<https://www.forbes.com/sites/kellyphillipsrb/2017/12/21/how-will-the-expanded-child-tax-credit-look-after-tax-reform/#1e8574694205>

No. 4: Alternative Minimum Tax (AMT)



- The AMT was created to prevent deduction loopholes
- The new tax law will keep AMT; however, fewer people will be affected by AMT due to higher income exemption levels and phase-outs.⁸

⁸<https://www.factcheck.org/2017/12/guide-tax-changes/>



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No. 5: Estate taxes⁹

- The new tax bill essentially doubles the estate tax exemption
- For 2018, the exemption for an individual is \$11.2 million and for married couple is \$22.4 million
- The tax rates will not change, capping out at 40% for 2018.



⁹<https://www.natlawreview.com/article/changes-to-federal-estate-gift-and-generation-skipping-transfer-tax-laws>



No. 6: Corporate taxes¹⁰

- The new tax bill reduces the corporate tax, previously ranging from 15% to 39%, to a flat rate of 21%.
- Corporate Alternative Minimum Tax (AMT) is going away.
- Businesses that have “pass through” income (Sole Proprietors, Partnerships, S Corps, and LLCs) may have the ability to deduct up to 20% of their income.
 - Many specific service industries may not receive this full deduction due to income limits.
 - Expires at the end of 2025.

The goal of this is to spur economic expansion through the creation of new jobs and capital expenditure.

¹⁰<https://www.reuters.com/article/us-usa-tax-provisions-factbox/whats-in-the-final-republican-tax-bill-idUSKBN1ED27K>



Others to note

- There are no changes to **capital gains** tax rates in the new tax bill.¹¹
- There is no longer a penalty for individuals that choose not to purchase **health insurance**, beginning in 2019.¹¹
- **Student loan interest** and **charitable contribution deductions** remain intact.¹²

¹¹<https://www.nytimes.com/interactive/2017/12/15/us/politics/final-republican-tax-bill-cuts.html>

¹²<https://www.forbes.com/sites/kellyphillipsrb/2017/12/20/what-your-itemized-deductions-on-schedule-a-will-look-like-after-tax-reform/#7254be16334b>