

The Tax Cuts and Jobs Act of 2017

The Tax Cuts and Jobs Act was signed into law on December 22, 2017 with many of its provisions to take effect on January 1, 2018. The bill is quite lengthy with over 500 pages of actual law and another 600 pages of explanation. As is the case with most tax revisions, simplification is not a word used to describe the new law.

There were many changes to the corporate tax law including significant reductions in the corporate tax rates and changes to encourage companies to repatriate their earnings that were held in overseas locations.

This article covers some of the changes that relate to personal taxes. As always, consulting your tax advisor is the best way to fully understand how these new rules may apply to your situation.

Income Tax Rate Schedules for 2020

2020 Single Return Rate Schedule		2020 Married Filing Jointly Rate Schedule	
Taxable income levels	Tax rate	Taxable income levels	Tax rate
0 to \$9,875	10%	0 to \$19,750	10%
\$9,876 to \$40,125	12%	\$19,751 to \$80,250	12%
\$40,126 to \$85,525	22%	\$80,251 to \$171,050	22%
\$85,526 to \$163,300	24%	\$171,051 to \$326,600	24%
\$163,301 to \$207,350	32%	\$326,601 to \$414,700	32%
\$207,351 to \$518,400	35%	\$414,701 to \$622,050	35%
Over \$518,401	37%	Over \$622,051	37%

2020 Taxation of Dividends and Long Term Capital Gains

Long term capital gains and qualifying dividends receive favorable tax treatment, based on taxable income levels.

Tax rate on long term capital gains and qualifying dividends	Taxable income levels for those filing individual returns	Taxable income levels for those filing joint returns
0%	Under \$40,001	Under \$80,001
15%	\$40,001 to \$441,450	\$80,001 to \$496,600
20%	Over \$441,451	Over \$496,601

Standard Deductions

The standard deduction for 2020 was increased to \$12,400 for those filing individual returns and \$24,800 for those filing joint returns.

Personal Exemptions

Personal exemptions were eliminated.

Itemized Deductions

Beginning in 2018:

- The limit for the state and local tax deduction is \$10,000. This includes income taxes, property taxes and sales taxes.
- The mortgage interest deduction was modified to only allow the deduction of interest on new mortgages up to \$750,000, down from \$1 million. The rules on deducting interest on re-financed mortgages are also changed and consulting your tax advisor is essential. Interest on home equity loans is no longer allowed.
- Charitable contribution deductions continue to be allowed with some increase on their limit.

Alternative Minimum Tax

In 2020, the exemption amounts for AMT have been increase to \$72,900 for single return filers and \$113,400 for married couples filing joint returns.

The Kiddie Tax

Unearned income (interest, dividends and capital gains) for children is now subject to the same rates as trusts with preferential rates for long term capital gains and qualifying dividends. These rules can be complex, and you may want to consult your tax advisor to see how they may apply to your situation.

Passthrough Business Entities

Many small businesses are formed as partnerships, limited liability corporations or subchapter S corporations with their income flowing through to the partners or shareholders. To bring the taxation of this type of income into line with the changes to the corporate tax rules, the partners or shareholders will be allowed to deduct a portion of that income. The rules are complex, and you will probably want to consult your tax advisor.

Section 529 Plans

These arrangements provide tax benefits for saving for education. The old rules only applied to funds used for certain college expenses. The new rules allow for funds to be used for kindergarten through high school expenses as well with some limits.

Estate Taxes

The exemption for determining when an estate is subject to the 40% estate tax was doubled under the new tax law to \$11.2 million for 2018. It increases to \$11.58 million for 2020.

Final Thoughts

There are other provisions of the new laws related to the individual mandate for health insurance coverage, the potential expiration of provisions and a lot more. You should expect that the income tax rules will continue to change in the years ahead and probably not get any simpler. If your tax situation is in any way complicated, the services of a qualified tax professional to assist you will probably continue to be essential.