The New Tax Law & What to Expect

By Carly Flanigan

The Tax Cuts and Jobs Act of 2017 was signed into law by President Trump on December 22, 2017. We've compiled a list explaining elements of the new tax law we believe will impact you most. The list is a brief overview, as we wanted to provide you with concise and easy to understand information. Please consult with us or your tax professionals if you have specific questions regarding your personal situation.

The Standard Deduction

Perhaps the biggest change The Tax Cuts and Jobs Act brings is an increase in the standard deduction. The deduction nearly doubles to $24,000 for married filers and $12,000 for single filers beginning in 2018. The previous standard deduction was $13,000 for married filers and $6,500 for single filers. Many more families will take the standard deduction because of this and therefore will find their tax situation is more simple than previous years. This is a considerable benefit to average income households and will provide additional stimulus to the economy.

State and Local Taxes

Beginning in 2018, the deduction of property and income or sales taxes is limited to $10,000 per return. For many retirees, especially in New York State, this was the largest itemized deduction you could take in previous years. We believe more people will revert to taking the standard deduction moving forward when filing taxes due to this change. This change will impact families owning significant personal real estate most and may influence some to sell their second homes or hold off on buying a second home.

Charitable Contributions

According to the Wall Street Journal, "the number of tax returns claiming deductions for charitable contributions will drop by more than 50%" due to the new tax law. This is because the standard deduction is nearly double what it was in the past as noted above. Because there is less economic benefit to contributing to charities for average households, the non-profit industry may be negatively impacted. We're happy to work on a strategy if you are charitably inclined to "bundle" your charitable donations into a single tax year to earn greater benefits.

Estate and Gift Tax

The estate and gift-tax exemption is doubling in 2018 to nearly $11.2 million per individual and $22.4 million per married couple. It is expected the number of estates the tax applies to will decrease greatly. One thing remaining the same in this section of the tax code is assets held at death are not subject to capital-gains tax. These assets still receive the "step-up in basis", meaning heirs are not subject to paying taxes on the growth of their inherited stock. The law increases the amount of tax-free gifts each taxpayer is allowed to make per year. This amount is now $15,000 per individual gift in 2018, up from $14,000 previously.

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Retirement Savings

There were not significant changes to the retirement sections of the tax code. The one exception being the new law no longer allows for the recharacterization of Roth IRAs. This will not impact most readers, but does reduce options for long-term tax planning.

Education: 529 Plans

Beginning in 2018, 529 plan assets can be used for private school tuition for K-12 students. This was not the case before and provides parents with an option to use up to $10,000 per year of the 529 plan funds towards primary and secondary education expenses. Another big change to 529 plans is the funds can be transferred to a 529 ABLE account if the beneficiary becomes blind or disabled before age 26. These assets will not impact the person's access to benefits, such as Medicaid and Social Security.

Advisory Fees

The Tax Cuts and Jobs Act repealed the ability to deduct investment expenses, including quarterly asset management fees. This may sound like a disadvantage, however, the limitations that were set on the deduction meant most investors did not qualify for this deduction. Previously, the deduction allowed for advisory fees only applied to fees paid from taxable accounts. Fees being paid using IRA assets were non-deductible. We believe the increase in the standard deduction in 2018 is far more advantageous for most people.

Child Tax Credit

In 2018 the child tax credit is increasing from $1,000 to $2,000 per child and more families are eligible for the credit than previous years. The child tax credit now begins to phase out at $400,000 of yearly income for couples and $200,000 for single filers. Those amounts in 2017 were $110,000 and $75,000, respectively.

New Tax Brackets

There will still be seven progressive tax brackets in 2018, however, the income levels and rates have changed. See the charts below for a breakdown of the new tax brackets for single filers and married couples filing jointly.

Tax Brackets: Single Filers	
10%	0 to $9,525
12%	$9,525 to $38,700
22%	$38,700 to $82,500
24%	$82,500 to $157,500
32%	$157,500 to $200,00
35%	$200,000 to $500,000
37%	$500,000 and up

Tax Brackets: Married Filing Jointly	
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