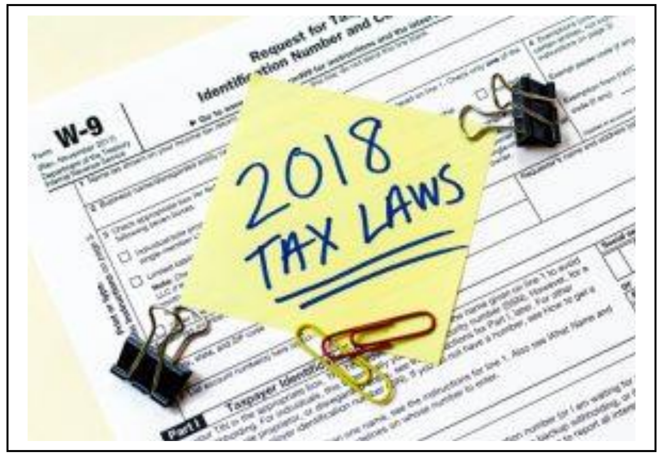
What Were The Actual 2018 Tax Changes?

Feb 21, 2018



Q: There was so much talk about the proposed changes to the tax code. Now that the changes have finally been signed into law, I'm wondering which planned modifications actually became a reality. What were the exact changes made to the U.S. tax code this year?

A: Many of the changes signed into law with the official Tax Cuts and Jobs Acts were quite different from those planned. Remember, though, that none of these changes will take effect until April 2018 at the earliest.

Let's take a look at exactly how the tax code will be different for 2018.

1.) Changes for the seven income brackets

The current administration initially planned on condensing the income bracket system into just three brackets. However, when the law was finally passed, the seven-bracket system remained in place, though income levels for each bracket were tweaked.

The old income levels for the seven brackets were as follows: 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. The new rates are now 10%, 12%, 22%, 24%, 32%, 35% and 37%.

2.) Removal of Obamacare penalties

While the administration was not successful in repealing the Affordable Healthcare Act, there will be no penalties for those who choose not to have adequate health coverage starting in the year 2019. For your 2017 and 2018 taxes, though, you will still need to provide proof of health coverage or be held liable for the penalty.

3.) Changes in standard deductions and personal exemptions

The personal exemption has been eliminated, while standard deductions have increased.
In 2017, the standard deduction for the single taxpayer was $6,350, in addition to one personal exemption of $4,050. For 2018, those deductions will be combined into one larger standard deduction of $12,000 for those filing separately, and $24,000 for joint filers.

4.) Child tax credit

Deductions and credits for children under age 16 have doubled from $1,000 to $2,000. There is also a new tax credit for non-child dependents.

The Child and Dependent Care Credit, offering parents deductions for specific child care expenses, remains as-is.

5.) Estate tax exemption

Before the current changes, the 40% estate tax applied to the portion of an estate was valued at $5.6 million for the individual, and $11.2 million for a married couple. The new law will double these exemptions. Taxpayers filing as individuals will be granted an exemption of $11.2 million, while married couples will have a $22.4 million exemption.

6.) Education tax breaks

Original versions of the tax bill included plans for reducing or eliminating several education tax breaks, but none of these changes actually made it into the Tax Cuts and Jobs Acts.

The Lifetime Learning Credit and Student Loan Interest Deduction remain unchanged, and the exclusion for graduate school tuition waivers is also still in place.

However, the new tax bill has expanded the available use of funds in a 529 college savings plan to include other levels of education. You can now use money in those funds to pay for private school tuition or tutoring services for children in grades K-12.

7.) Deduction changes

There have been slight changes in the mortgage interest, charitable contributions, medical expense and State and Local Taxes (SALT) deductions.

The mortgage interest deduction was previously in place for any mortgage debt totaling up to $1 million. Under the new tax code, all mortgages taken after Dec. 15, 2017 and totaling up to $750,000, are qualified for this deduction. Also, the interest on a home equity loan can no longer be deducted.

The charitable contribution deduction has seen two minor changes. Taxpayers can now deduct as much as 60% of their income for charitable donations, up from the previous 50% limit. Also, donations made to universities in exchange for the privilege of purchasing tickets to athletic events can no longer be deducted as charitable expenses.

The cap for the medical expenses deduction has been cut from 10% of adjusted gross income (AGI) to 7.5% of AGI. Unlike nearly all other provisions in the bill, this change is retroactive to the 2017 tax year. Also, it will only apply through 2018.

The SALT deduction, which includes property and income tax, was originally slated for elimination, but was preserved with some changes. The total SALT deduction now cannot exceed $10,000.

8.) Corporate tax rate changes

The modified tax code lowers the corporate tax rate to a flat 21% on all profits. This simplifies taxes for most businesses while providing them with a significant cut as well.

9.) Disappearing deductions

Not every deduction survived the new tax law. Here are some that won't be in effect for 2018 taxes:

- Casualty and theft losses that were not caused by a federally declared disaster
- Unreimbursed employee expenses
- Tax preparation expenses
- Miscellaneous deductions previously subject to the 2% AGI cap
- Moving expenses
- Reimbursement for employer-subsidized parking and transportation

10.) Repatriation of foreign assets

In an effort to bring some of the country's largest companies' profits back to American shores, the new tax law features a one-time repatriation rate of 15.5% on all cash and similar foreign-held assets, and 8% on non-liquid assets held overseas.

11.) Changes to the AMT exemption amount

The alternative minimum tax (AMT) exemption was permanently adjusted to account for inflation. These changes will be most dramatic in 2018 and are as follows:

- For a single taxpayer or one filing as head of household, the AMT rate will increase from $54,300 to $70,300.
- For a married couple filing jointly, the AMT rate will increase from $84,500 to $109,400.
- For married couples filing separately, the AMT rate will increase from $42,250 to $54,700.

Your Turn: What do you think about the changes in the tax code? How would you do things differently? Share your thoughts with us in the comments!

Sources*:
https://www.google.com/amp/s/www.fool.com/amp/taxes/2017/12/29/your-complete-guide-to-the-2018-tax-changes.aspx

https://www.google.com/amp/s/www/cnbc.com/amp/2017/12/29/heres-where-you-stand-in-the-new-2018-tax-brackets.html

https://google.com/amp/s/businessinsider.com/tax-brackets-2018-trump-tax-plan-chart-2017-12

This article is for you complements of MembersAlliance Credit Union – 3/5/2018

Please feel free to share!

2550 S. Alpine Rd. Rockford, IL 61108 – Phone 815-226-2260

https://www.membersalliance.org/

* The contents of the external links contained within are for your informational purposes only and do not necessarily reflect the views of MembersAlliance Credit Union.