What's in the Tax Bill, and How It Will Affect You

https://www.nytimes.com/2017/12/16/your-money/tax-plan-changes.html?em_pos=large&emc=edit_my_20171226&nl=your-money&nlid=79027541&ref=headline&te=1

By RON LIEBER and TARA SIEGEL BERNARD DEC. 16, 2017

(UPDATED) — Republican lawmakers passed a sweeping tax overhaul this week. Several of the most anticipated changes — such as a significant increase in the standard deduction and the curtailing of state and local income tax breaks — made the final cut of the bill. Some of the most controversial proposals, like eliminating the medical deduction, were wiped away.

Many of these provisions are temporary, however, and are set to expire after seven years. They all take effect in 2018, unless noted otherwise.

Tax Brackets

OLD LAW Seven brackets, with a top rate of 39.6 percent, which people pay on income they earn beyond $470,700 for couples filing their taxes jointly or $418,400 as an individual.

NEW PLAN Seven brackets, with a top rate of 37 percent, which married people filing jointly will pay on income they earn in excess of $600,000. If you're single, the top rate applies to income earned beyond $500,000. Capital gains and qualified dividend rates are unchanged.

Exemptions, Credits, Standard Deductions

OLD LAW If you're single, the standard deduction is $6,350. Add in exemptions, and you're up to $10,400. Married without children? That's $12,700 for the deduction and $20,700 with exemptions. If you're married with two children, the deduction-plus-exemptions figure goes up to $28,700. There is also a $1,000 tax credit per child.

NEW PLAN The standard deduction is temporarily increased to $12,000 for singles and $24,000 for married couples filing joint returns.

The child tax credit is increased to $2,000 for each child — and up to $1,400 of that can be delivered in the form of refundable credit, which means taxpayers can receive money back even if they have no tax liability. (Taxpayers may also reduce their tax bill by up to $500 for other dependents who are not children.)

But that all changes in 2025, when the deductions and exemptions revert to current law.

Mortgage Interest, and State and Local Tax Deductions

OLD LAW You can generally deduct the amount you pay for state and local income taxes, including property taxes, on your federal income tax return. You can also deduct the interest you pay each year on mortgage debt up to $1 million, a cap that can cover multiple homes. Plus, you can generally deduct up to $100,000 in interest you pay on a home-equity loan or line of credit.

NEW PLAN Taxpayers may deduct only up to $10,000 total, which may include any combination of state and local income taxes and property taxes (or sales plus property taxes in states where there is no income tax). But don't bother trying to prepay your state and local income taxes for 2018 before year-end to circumvent the new limit. The proposal is one step ahead of you and your accountant and won't allow it.

For homeowners who pay their state income taxes quarterly, it is O.K. to pay the last and final installment due Jan. 16 on or before the last day of this year, if you want to claim the deduction this year.

Taxpayers can also prepay their 2018 property taxes — as long as their local jurisdiction allows it.

You can also deduct the interest paid on mortgage debt up to $750,000; that includes your primary home and one other "qualified residence," which may include a mobile home or a boat. But if you bought a property before Dec. 15, you can still deduct interest up to $1 million (the limit under current law). Home equity loan interest is no longer deductible for anyone.

Photo

Taxpayers will be able to deduct out-of-pocket medical expenses that exceed 7.5 percent of their adjusted gross income. Credit Ruby Washington/The New York Times

Medical Expenses

OLD LAW You can deduct out-of-pocket medical expenses that exceed 10 percent of your adjusted gross income (but not the expenses that amount to the first 10 percent). This is particularly useful for the elderly and others with lower incomes who need regular assistance and care.

NEW PLAN In 2017 and 2018, you can deduct out-of-pocket medical expenses that exceed 7.5 percent of adjusted gross income. But come 2019, it will go back to the 10 percent threshold for all taxpayers.

Individual Mandate

OLD LAW Under the Affordable Care Act, individuals must buy a qualifying health insurance plan or pay a penalty — unless they qualify for an exemption.

NEW PLAN The penalty is reduced to zero, which, in practice, means that fewer healthy individuals may sign up for coverage — and that is expected to lead to higher premiums for people who do not qualify for premium subsidies.

Alternative Minimum Tax

OLD LAW The A.M.T. is an alternative way of calculating income taxes due, to make sure that people with lots of deductions don't pay too little. It often hits higher income families, especially in states where the state income tax is high.

NEW PLAN The A.M.T. will not go away, even though many Republicans had hoped to eliminate it. But through 2025, it will apply to fewer people and kick in at higher income levels.

Estate Taxes

OLD LAW In general, estates pay 40 percent federal tax on inherited property, but rules waive that tax for estates up to $5,490,000.

NEW PLAN The baseline exemption amount doubles to $10 million and is indexed to inflation occurring after 2011. It applies to the estates of people who die after Dec. 31 but before Jan. 1, 2026 (and also to gifts made during that time frame).

Small-business owners will generally be able to deduct 20 percent of their qualified business income from a partnership, S corporation and sole proprietorship. Credit Yeong-Ung Yang for The New York Times

Pass-Through Businesses

OLD LAW People who own small businesses of various sorts generally pay income taxes based on the normal rate for individual taxes. Often, they are involved in or run partnerships, sole proprietorships, limited liability companies and S corporations.

NEW PLAN Starting next year and before Jan. 1, 2026, individuals can generally deduct 20 percent of their qualified business income from a partnership, S corporation and sole proprietorship. There are limits, however, including a phaseout for the deduction that begins at $157,500 of individual income and $315,000 of income for couples filing jointly.

529 Plans

OLD LAW Your money grows free of any capital gains taxes and you can withdraw it tax-free to pay for higher education expenses.

NEW PLAN Nothing changes with higher education, but you will also be able to withdraw up to $10,000 each year, per child, to pay for private or religious school and receive the same tax benefits. Also, families can roll 529 funds over to ABLE accounts, which offer tax advantages for people with disabilities.

Investment Fees and Unreimbursed Business Expenses

OLD LAW You can deduct fees you pay to an investment adviser and similar expenses related to money management but only if they add up to at least 2 percent of your adjusted gross income. The same rule applies to work expenses your employer does not reimburse you for.

NEW PLAN These will no longer be allowable deductions, though that lasts only through 2025.

Roth I.R.A. Do-Overs

OLD LAW Under current law, you can perform a kind of do-over if you've recently converted an individual retirement account into a Roth I.R.A. The way this works is that if you make the conversion and then the value of the account falls or some other circumstance changes before Oct. 15 of the following year, you can recharacterize the Roth so that it is a plain old I.R.A. again. This could allow people to avoid paying high tax bills on an amount of money that had then fallen in value after the conversion.

NEW PLAN No more do-overs. Once you convert to a Roth, it stays a Roth.

Losses for Fires and Floods

OLD LAW If you're a victim of a house fire, flood, burglary or similar event, you can generally deduct losses — as long as each loss is more than $100 and all losses collectively exceed 10 percent of your adjustable gross income.

NEW PLAN Starting next year, taxpayers can still deduct these losses using the same rules — but only if the loss occurred during an event that the president officially declared to be a disaster.

Alimony

OLD LAW Alimony is a deductible expense for people paying it, and those who receive it must pay income taxes.

NEW PLAN Divorce would become a bit more burdensome for the ex-spouse who pays alimony because it would no longer be a deductible expense. But the person receiving the payments would no longer need to pay tax on the income received. The change would take effect for divorce and separation agreements executed starting in 2019.

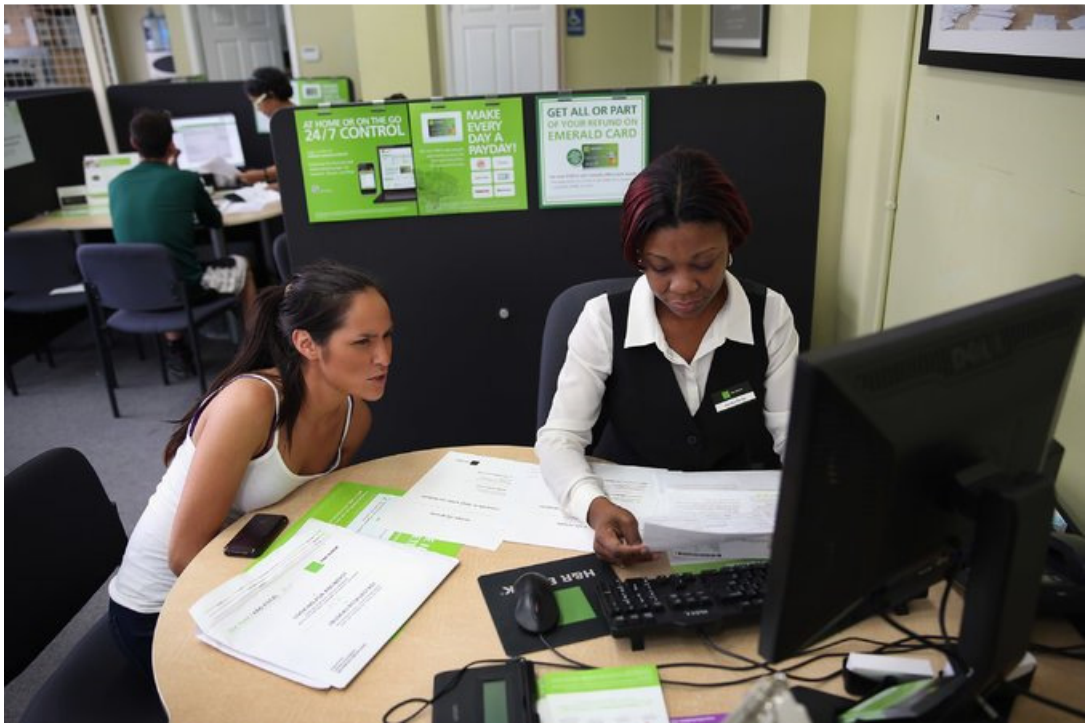
Ex-spouses who want to modify existing agreements — created on or before Dec. 31, 2018 — can continue to follow the current 2017 tax rules, as long as they specify that in the new agreement. These individuals are likely to stick with the old rules —generally speaking, it would only make sense to change to the new tax treatment if the ex-spouse paying the support is in a lower tax bracket than the recipient.

Moving Expenses

OLD LAW Taxpayers can deduct moving expenses — even if they do not itemize their tax returns — as long as the new workplace is at least 50 miles farther from the old home than the old job location was from the old home. (If you had no workplace, the new job must be at least 50 miles from your old home.)

NEW PLAN Moving costs would generally no longer be a deductible expense starting in 2018, though it allows some exceptions for members of the military.

Photo



Tax preparation or similar tax-related expenses, like software to file electronically, will no longer be deductible. Credit Joe Raedle/Getty Images

Tax Preparation

OLD LAW You can usually deduct the amount your tax preparation specialist billed you or any similar tax-related expenses, like software you purchase and the fee to file your forms electronically.

NEW PLAN Taxpayers would no longer be able to take this deduction.

Riding a Bicycle to Work

OLD LAW You can exclude up to $20 a month from your income for expenses related to regular bicycle commuting, as long as you are not receiving other pretax commuting benefits from your employer.

NEW PLAN Starting next year, these expenses are no longer deductible.

New Inflation Counter

OLD LAW There are different ways to measure the change in the cost of living. Right now, the federal government largely relies on what's known as the Consumer Price Index, referred to as the C.P.I.

NEW PLAN The bill would change the measure to what's known as the chained C.P.I., which generally rises more slowly than what is used now. This would slow the speed at which tax brackets grow with inflation, so taxpayers would more quickly find themselves in higher marginal tax brackets.

Using a slower-growing measure also means certain tax breaks would also grow more slowly, like the earned-income tax credit, among others.

This change is permanent; the measure would continue to be used even after other tax changes, including the increased standard deduction, expire.

Gambling Losses

OLD LAW You can deduct gambling losses but only up to the amount of any gambling income during any given year.

NEW PLAN The bill clarifies that people (including many professional gamblers) who also deduct wagering expenses, such as the cost of travel to and from a casino, must add those expenses to their total losses before comparing that sum to their total taxable winnings for the purpose of making the overall deduction calculation. This clarification does not apply to expenses that gamblers incur beyond 2025.

Taxability of Discharged Student Loan Debt

OLD LAW In general, when you owe a debt and the entity to whom you owe it forgives that debt, the amount of the forgiven debt counts as taxable income. This is not currently the case for the people who will soon benefit when the federal government wipes away their debts under the public service loan forgiveness program (and also people in some other health-service and other loan programs). But the amount is taxable when student loan balances are forgiven in the event of a death or disability.

NEW PLAN Discharged debt in the event of death or total and permanent disability will no longer be taxable. The provision expires after 2025.

Kiddie Tax

OLD LAW This year, if a child collects unearned income above $2,100, that money is generally taxed at the parents' tax rates instead of the child's, if the parents' rate is higher. (Children are generally defined as someone under the age of 19, or a full-time student under 24.)

NEW PLAN Under the new rules, the child's net unearned income would be taxed using the brackets that trusts and estates follow; that system has a top bracket of 37 percent, which applies to income that exceeds $12,500.

Tax experts said this won't change much for higher income families since they were already paying similar rates. But middle class families could feel more of a pinch if their children have portfolios generating significant income — from, say, an inherited individual retirement account. For children with smaller amounts of unearned income, they may come out slightly ahead.

The rules revert to today's law in 2025.

Taxation on children's earned income is unchanged and is taxed at single taxpayers' rates.

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WHAT DID NOT CHANGE

STUDENT LOAN INTEREST The House had proposed to repeal the deduction for student loan interest, but the final bill has no repeal.

ADOPTION ASSISTANCE PROGRAMS The House had proposed to repeal the deduction for financial assistance that an employer may provide when an employee adopts a child, but the final bill has no repeal.

DEPENDENT CARE ACCOUNTS At one point, the House had proposed to eliminate workplace dependent care savings accounts that allow employees to put away $5,000 free of income taxes each year. It later altered the provision to have the accounts disappear in 2023. The Senate never proposed any change, and there is no change in the final bill.

TUITION WAIVERS Employees of educational institutions who receive reduced tuition — or a waiver — for themselves, spouses or dependents are generally not taxed on that income. This is particularly helpful for certain graduate students; their tuition is waived as part of arrangements in which they teach or perform research at their university. The House had proposed to tax the benefit, but the final bill does not have this provision.

EMPLOYER-PAID TUITION When employers pay your tuition for continuing education, the amount they pay is not taxable income for you as long as it meets certain conditions and amounts

to no more than $5,250 a year. The House had proposed that the benefit be taxable, but the final bill does not have this provision.

CAPITAL GAINS WHEN SELLING A HOME With some exceptions, a married couple filing their taxes jointly can exclude up to $500,000 in capital gains on the sale of a home, as long as they have used it as a primary residence for at least two of the last five years. A single individual can exclude up to $250,000. The House and Senate both proposed to make this rule more strict, but neither provision prevailed, and the rule will remain the same.

TEACHER DEDUCTION Teachers can take a $250 deduction for money they spend on certain job-related and classroom expenses. The House wanted to eliminate the tax break, while the Senate wanted to double it temporarily. Neither proposal made the final bill, and the rule will remain the same.

401(K) TAX BREAK Before the House and Senate introduced their bills, there were rumors they might try to restrict the amount of pretax money that people could put into their workplace savings accounts. They did not try to do this, though, and the rules for these accounts remain the same.

ELECTRIC CARS Buyers of qualifying plug-in electric vehicles, like the Chevrolet Bolt or Volt and Tesla's cars, can sometimes get a tax credit for up to $7,500. The House had proposed eliminating the tax break, but the provision didn't make the final bill. So the tax break remains.

ARCHER MEDICAL SAVINGS ACCOUNTS These accounts came into existence before health savings accounts but work in similar ways. The House bill had proposed to take away the tax break for contributions to the accounts, but that did not make it to the final bill

SELLING STOCK AND MUTUAL FUNDS Under current law, people who have shares of stock or funds in a taxable investment account can choose which shares to sell if they are selling part of their investment. This allows people who bought shares at different times to sell only the ones that will help them pay the least amount in taxes on any gains. The Senate proposed to restrict such moves, but its provision did not make it to the final bill.