

ADVISORY

Subject	Linchpin of Recently Enacted Tax Cuts and Jobs Act (TCJA) for Individuals
ATTN	Individual taxpayers with US reporting obligations
Date	May 18, 2018

Major tax reform in Tax Cuts and Jobs Act (TCJA) was approved by Congress of the United States of America on December 22, 2017. Highlighted are some of the important provisions of the new law which have great impact on individuals. Unless otherwise stated, the following provisions are effective for taxable years starting 2018 until 2025:

- ❖ **Tax rates (Sec. 11001).** A new tax rate structure reduces its 7 tax brackets to 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The top rate reduced to 37% was applied to single taxpayers with taxable income above \$500k and married joint filers and surviving spouse with above \$600k.
- ❖ **Qualified Business Income (QBI) Deduction of Pass-thru entities (Sec. 11011).** Allows individual to deduct up to 20% of QBI from pass-thru entities such as partnership, S corporation or sole proprietorship not exceeding certain thresholds. This is available to those who do not itemize deductions.
- ❖ **Standard deduction (Sec. 11021).** Increases to \$24k (from \$12,700) for married joint filers and surviving spouses, \$18k (from \$9,350) for head-of-household filers, and \$12k (from \$6,350) for all other filers, single and married individuals filing separately which are indexed for inflation after 2018.
- ❖ **Child and family tax credit (Sec. 11022).** Modifies the child tax credit to \$2k from \$1k per qualifying child under the age of 17 and increases the refundable portion of the credit up to \$1.4k per qualifying child. It also allows a new, non-refundable \$500 tax credit for each taxpayer's dependent who is not a qualifying child. The tax credit is phased out at adjusted gross income (AGI) levels of \$400k for married joint filers and \$200k in any other case.
- ❖ **Charitable Contributions threshold (Sec.11023).** Increases limitation for cash contributions to certain organizations from 50% to 60% of the taxpayer's contribution base for the taxable year.

Deductions and Exclusions

- ❖ **Personal exemptions, wage withholding and requirements (Sec. 11041).** Suspends the deduction for personal exemptions starting 2018, modifies the wage withholding rules and amends the requirements to assess who are required to file tax returns.
- ❖ **State and Local Taxes (Sec. 11042).** This limits individual deductions for certain State and Local taxes to a total of \$10k (\$5k in the case of a married individual filing a separate return) beginning 2018. This shall not apply to any foreign taxes as described in subsection a.3 or to those taxes paid or accrued in carrying on a trade or business or for expenses for the production of income.
- ❖ **Qualified residence interest (Sec. 11043).** *Mortgage interest on loans taken in 2018 used to acquire principal and second residences are deductible on debt up to \$750k (\$375k for married individual filing separately) previously from \$1M (\$500K) reduced by the amount of any indebtedness incurred on or before December 15, 2017. Interests on home equity loans regardless of when the debt was incurred are no longer deductible.*
- ❖ **Casualty and theft losses (Sec. 11044).** Deduction for casualty and theft losses has been suspended or repealed except for losses incurred in a federally declared disaster with an exception for certain personal casualty losses that do not exceed personal casualty gains.
- ❖ **Suspension of the ff.:** a) *Miscellaneous itemized deductions (Sec. 11045), b) Overall limitation on itemized deductions (Sec. 11046), c) Exclusion for qualified bicycle commuting reimbursement (Sec. 11047), d) Exclusion for qualified moving expense reimbursement (Sec. 11048) and deduction for moving expense (Sec. 11049) except for certain military personnel, and e) Deductions for alimony payments and corresponding inclusion in the gross income of recipient spouse (Sec. 11051).*
- ❖ **Medical expenses threshold (Sec. 11027).** *Deductible to the extent that medical expenses exceeds 7.5% (until 2018, previously it was at 10%).*
- ❖ **Estate and Gift Tax exemption made in 2018-2025 (Sec. 11061).** Increase in basic exclusion from \$5M to \$10M.
- ❖ **Alternative minimum tax (AMT) exemption (Sec. 12003).** *The exemption amount is increased to \$109.4k for married joint filers (\$54.7k for separate filers), and \$70.3k for unmarried taxpayers. The exemption is phased out with AM taxable income over \$1M for married joint filers and \$500k for all others (other than estates and trusts).*

Reference:

"H-R-1 An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018 (Public No. 115-97, December 22, 2017)"



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