**Re: 2017 Tax Cuts Act: Impact on Families**

Dear Client:

The Tax Cuts and Jobs Act makes sweeping tax changes that impact virtually all taxpayers. For individual taxpayers and their families, changes include a decrease in the tax rates, repeal of the personal exemption, increase in the standard deduction, modification to itemized deductions, and doubling of the child tax credit.

Under the Tax Cuts and Jobs Act, personal exemptions are repealed ($4,050 in 2017) for 2018 through 2025. Instead, the Tax Cuts and Jobs Act provides for a near doubling of the standard deduction. For tax year 2018, it increases the standard deduction from $13,000 to $24,000 for married individuals filing a joint return; $9,550 to $18,000 for head-of-household filers; and $6,500 to $12,000 for all other individuals. These standard deduction amounts are indexed for inflation for tax years beginning after 2018. The additional standard deduction for the elderly and the blind ($1,300 for married taxpayers, $1,600 for single taxpayers) is retained.

**Itemized deductions**

*Mortgage interest deduction.* The Tax Cuts and Jobs Act limits the mortgage interest deduction to interest on $750,000 of acquisition indebtedness ($375,000 in the case of married taxpayers filing separately), for tax years beginning 2018 through 2025. For acquisition indebtedness incurred before December 15, 2017, the Tax Cuts and Jobs Act allows current homeowners to keep the current limitation of $1 million ($500,000 in the case of married taxpayers filing separately). Taxpayers may continue to include mortgage interest on second homes, but within those lower dollar caps. However, no interest deduction will be allowed for interest on home equity indebtedness.

*State and local taxes*. The Tax Cuts and Jobs Act limits annual itemized deductions for all nonbusiness state and local taxes deductions, including property taxes, to $10,000 ($5,000 for married taxpayer filing a separate return) for 2018 through 2025. Sales taxes may be included as an alternative to claiming state and local income taxes.

*Miscellaneous itemized deductions.* The Tax Cuts and Jobs Act repeals all miscellaneous itemized deductions for tax years 2018 through 2025 that are subject to the two-percent floor under current law.

*Medical expenses.* The Tax Cuts and Jobs Act lowers the threshold for the deduction to 7.5 percent of adjusted gross income (AGI) for tax years 2017 and 2018.

*Casualty losses.*For tax years 2018 through 2025, a casualty loss will only be allowed to the extent it is attributable to a federally declared disaster.

The phaseout of itemized deductions is suspended for tax years 2018 through 2025.

The doubling of the standard deduction and modifications to itemized deductions effectively eliminates many individuals from claiming itemized deductions other than higher-income taxpayers. For example, for the vast majority of married taxpayers filing jointly, only those with total allowable mortgage interest, state income and local income/property taxes (up to $10,000), and charitable deductions exceeding $24,000, would claim them as itemized deductions (absent extraordinary medical expenses).

In contrast, the enhanced child credit has been highlighted as one of the provisions that will lower overall tax liability for middle-class families. The Tax Cuts and Jobs Act temporarily increases the current child tax credit from $1,000 to $2,000 per qualifying child. Up to $1,400 of that amount is refundable. The child tax credit is also expanded to provide for a $500 nonrefundable credit for qualifying dependents other than qualifying children. More families will be able to take advantage of the credit due to an increase in the adjusted gross income phaseout thresholds, starting at $400,000 for joint filers ($200,000 for all others).

In addition to changes related to exemptions, the child tax credit and the standard and itemized deduction discussed above, the Tax Cuts and Jobs Act also makes changes to alternative minimum tax and the individual tax brackets. Because these tax provisions are interrelated, estimating the impact of these changes to the tax liability for any particular family is challenging. However, as with any tax reform, there will be winners and losers.

Example 1: Married Couple (both 45); AGI $100,000; 2 children (ages 8 and 12); mortgage interest $6,000; property tax $5,000; state income tax $3,000; charitable contributions $500

Example 2: Married Couple (both 45); AGI $200,000; 2 children (ages 19 and 22, both in college); mortgage interest $10,000; property tax $18,000; state income tax $6,000; charitable contributions $1,000

Example 3: Married couple (both 45); AGI $400,000; 2 children (ages 10 and 12); mortgage interest $12,500; property tax $25,000; state income tax $8,000; charitable contributions $7,500

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| **Example** | **1** | | | **2** | **2** | |  | **3** | |
|  | **2017** | | **2018** |  | **2017** | **2018** |  | **2017** | **2018** |
| AGI | 100,000 | | 100,000 |  | 200,000 | 200,000 |  | 400,000 | 400,000 |
| Standard Deduction |  | | 24,000 |  |  | 24,000 |  |  | c |
| Itemized Deduction | 14,500 | | a |  | 35,000 | b |  | 50,414 | 30,000 |
| Exemptions | 16,200 | |  |  | 16,200 |  |  | 4,860 |  |
| Taxable Income | 69,300 | | 76,000 |  | 148,800 | 176,000 |  | 344,726 | 370,000 |
| Tax | 9,466 | | 8,739 |  | 28,678 | 30,819 |  | 88,977 | 81,779 |
| AMT |  | |  |  | 319 |  |  | 5,344 |  |
| Addtl Med Tax |  | |  |  |  |  |  | 1,350 | 1,350 |
| Child Tax Credit | 2,000 | | 4,000 |  |  | 1,000 |  |  | 4,000 |
| Total Tax | 7,466 | | 4,739 |  | 28,997 | 29,819 |  | 95,671 | 79,129 |
| Tax decrease (increase) | | 2,727 | |  |  | (822) |  |  | 16,542 |

1. Total itemized deductions in 2018 would remain the same at $14,500 which is less than the new standard deduction of $24,000.
2. Deduction for total amount of property tax and sales tax would be limited to $10,000 in 2018. Therefore, total allowed itemized deductions of $21,000 would be less than the standard deduction of $24,000.
3. Deduction for total amount of property tax and sales tax would be limited to $10,000 in 2018. Total allowed itemized deductions of $30,000 are not phased out and is more than the $24,000 standard deduction.

Keep in mind that many of the changes to the Internal Revenue Code in the Tax Cuts and Jobs Act are temporary. This is true especially with respect to the provisions impacting individuals. This decision was made in order to keep the tax reform within budgetary parameters, but with no guarantees that a future Congress would extend them. In future years, as the tax reform provisions expire, tax liability for individuals may be negatively affected.

If you have any questions related to tax reform and the impact on your tax liability, please call our office. We are here to assist you.

Sincerely,