TAX & WEALTH ADVISOR ALERT: WHAT SHOULD INDIVIDUALS KNOW ABOUT THE TAX PLAN?

I'm sure you've heard the news by now–Congress passed sweeping tax legislation at the end of 2017. These changes to the tax code will affect everyone from hairdressers to private equity fund managers. Everyone now wonders, what do I need to know about the tax plan? Over each of the next several weeks, we will tailor our summary of the tax plan by interest group, providing you with what you need to know based on your interests. This week, we will discuss the most important tax law changes affecting individuals. In the following weeks, we will discuss the changes affecting non-profits, businesses claiming deductions and credits, and businesses considering pass-through or corporate taxation.

When I said this week's post would discuss tax law changes affecting individuals, you probably thought to yourself, doesn't that mean everyone? Yes, it does. Any individual who files an individual income tax return (Form 1040) will see a change on his or her tax return for 2018. You've likely heard about the big-ticket changes–the elimination of many itemized deductions, the doubling of the standard deduction, and the overall reduction of the tax rate. It's important to note that Congress left unchanged the preferential 20% tax rate for long-term capital gains and qualified dividend income. Also, Congress modified the alternative minimum tax (AMT) system, meaning fewer individuals will be subject to AMT than before.

The tax bill made numerous changes to the deductions available to individuals. For those who itemized in the past, the deductions you once claimed may have been eliminated, like the miscellaneous itemized deduction for tax preparation fees or the deduction for interest paid on home equity lines of credit, or the deductions may have been limited, like the deductions you claimed for property taxes and state and local income taxes (now limited to $10,000 combined). By doubling the standard deduction, many individuals who itemized previously will now claim the standard deduction. Although this sounds like it will cause you to pay more tax, the modification of the tax brackets and reduction in tax rates (such as the top rate changing from 39.6% to 37%), may balance out your tax bill.

For the wealthiest individuals, the tax plan gives your estate a break at death. In 2018, individuals can leave $11,200,000 free of estate, gift, and generation-skipping transfer tax (up from roughly $5,500,000). The other rules affecting the estate and gift tax regime, such as the surviving spouse's ability to use the deceased spouse's remaining exemption, remain unchanged. This means married couples have an exemption of $22,400,000.

Now that we've discussed all the major changes, what changes to the tax code have received less media attention? For starters, the tax plan repealed the deduction for moving expenses and the exclusion from income for moving expenses reimbursed by your employer. These changes will have a negative impact on your tax bill if they apply to you. Alternatively, the tax plan expanded the qualified use of section 529 plan funds (a tax-advantaged savings plan for education expenses) to elementary or secondary public, private, or religious school tuition and eligible expenses. This change will have a positive impact on your tax bill if it applies to you.

For those taxpayers subject to the "kiddie tax" (the regime previously applying the parents' income tax rate to a child's income), they will see a change on their tax return going forward. Now, earned income will be taxed at rates applied to single filers, and unearned income will be taxed at rates applied to trusts and estates. These changes will likely increase the amount of tax owed on a child's income. For those taxpayers borrowing from their retirement plans, the tax plan gives you more time to pay off that balance, potentially saving you income tax.

As you can now glean, the new tax laws are all over the map–some increase the amount of tax you will owe and others decrease it. It's important to note that most of these changes will expire on December 31, 2025. Until then, we'll continue helping clients assess important decisions in light of the new tax code.