Individual Highlights of the Tax Cuts and Jobs Act of 2017

On December 22, 2017, President Donald Trump signed into law H.R. 1, the Tax Cuts and Jobs Act of 2017 (TCJA). This new tax legislation, 185 pages in length, is the most significant revision to the U.S. federal tax code since the Tax Reform Act of 1986. To some degree, almost every individual and business in the U. S. will be affected by it.

What follows is a brief summary of some of the *individual* provisions contained in the TCJA Because of the size and complexity of the legislation, provisions primarily affecting *businesses* are discussed separately.

One notable feature of this legislation is that the majority of the individual tax provisions "sunset" after eight years, while many business provisions are permanent. Unless noted otherwise, the individual changes discussed here are effective for tax years beginning after December 31, 2017 and expire on December 31, 2025, when prior law will apply.

Income Items

Item	Prior Law	TCJA 2017
Deduction for qualified business income	No comparable provision	An individual taxpayer generally may deduct 20% of qualified business income from a partnership, S corporation, or sole proprietorship, as well as 20% of aggregate qualified REIT dividends, qualified cooperative dividends, and qualified publicly traded partnership income. A limitation based on W-2 wages paid applies above a certain threshold. The deduction is disallowed to specified trades and businesses with taxable income above a threshold amount.

Item	Prior Law	TCJA 2017
Unearned income of children – "kiddie" tax	The net unearned income (for 2017 unearned income in excess of $2,100) of a child is taxed at the parent's rates if the parent's rates are higher than those of the child. The remainder of a child's taxable income is taxed at the child's rates.	Taxable income attributable to net unearned income ($2,100 for 2018) is taxed according to the brackets applicable to trusts and estates. The remainder of a child's taxable income is taxed at the child's rates.
Capital gains and qualified dividends	Prior law generally taxed most capital gains and all qualified dividends at either 0.0% (taxpayer's regular marginal bracket less than 15.0%), at 15.0% (taxpayers regular marginal bracket between 15.0% and 39.6%) or at 20.0% (taxpayer's regular marginal bracket equal to 39.6%).	The new Act retains the 0.0%, 15.0%, and 20.0% tax rate structure applicable to most capital gains and all qualified dividends. To determine which rate applies (0.0%, 15.0%, or 20.0%), the Act retained the specific dollar breakpoints applicable in 2017, and, for 2018, indexed them for inflation using a "chained" CPI-U, or C-CPIU. These 2017 base amounts will continue to be indexed for inflation (through 2025) using the C-CPIU.

Adjustments to Gross Income

Item	Prior Law	TCJA 2017
Moving expenses	Prior law allowed an above-the-line deduction for moving expenses incurred in connection with the start of work at a new location. Also allowed was an exclusion from income for employer-reimbursement of moving expenses. Special rules applied to members of the U.S. armed forces.	Suspends the deduction for moving expenses. The Act also repeals the exclusion from gross income for employer-reimbursement of moving expenses. The special rules applicable to member of the U.S. armed forces remain the same.

Item	Prior Law	TCJA 2017
Alimony	Alimony and separate maintenance payments are deductible by the payor spouse and included in income of the recipient spouse.	Alimony and separate maintenance payments are not deductible by the payor spouse and are not included in the gross income of the recipient spouse. This change is permanent and is generally effective for any divorce or separation agreement executed after December 31, 2018.

Itemized Deductions

Item	Prior Law	TCJA 2017
Medical expense deduction	For 2017 and 2018, unreimbursed medical expenses were deductible to the extent they exceeded 10% of adjusted gross income (AGI). The 10% limit also applied for individual AMT purposes.	For 2017 and 2018, unreimbursed medical expenses are deductible to the extent they exceed 7.5% of AGI. The 7.5% limit also applies for individual AMT purposes.
State and local taxes	Individuals were permitted an unlimited deduction for certain state and local real and foreign property taxes, state and local personal property taxes, or state, local, and foreign income, war profits, and excess profits taxes.	TCJA limits the individual deduction for state and local real and foreign property taxes, state and local personal property taxes, and state, local, and foreign income, war profits, and excess profits taxes to no more than $10,000 ($5,000 if MFS) per year. These limits are not inflation indexed.

Item	Prior Law	TCJA 2017
Home mortgage interest deduction	Prior law allowed a deduction for interest paid on “acquisition indebtedness,” of up to $1,000,000 ($500,000 for a taxpayer filing married filing separately – MFS), on up to two homes. Prior law also allowed a deduction for up to $100,000 ($50,000 for MFS) of “home equity” debt.	The new law limits a taxpayer’s deduction to interest paid on no more than $750,000 ($375,000 – MFS) of acquisition indebtedness on two homes. The bill suspends the deduction for interest paid on home equity debt. For debt incurred before December 15, 2017, the $1,000,000-$500,000 limits apply.
Charitable contribution deduction	The deduction for cash contributions to specified charities was limited to 50% of AGI. Prior law also allowed a deduction of 80% of a donation to an institution of higher education in return for the right to purchase seating or tickets to athletic events.	The Act increases the AGI limitation for cash contributions to 60% of AGI. It also permanently repeals the deduction for donations to institutions of higher education in return for the right to purchase seating or tickets to athletic events.
Casualty and theft losses	Unreimbursed personal casualty and theft losses were deductible only if they exceeded $100 per casualty or theft and only to the extent that the loss exceeded 10% of the taxpayer’s AGI.	For 2018-2025, the Act modifies the law so that a taxpayer may claim a deduction for a casualty or loss (subject to the $100 and 10% of AGI limits) only if the loss was attributable to a federally declared disaster. For 2016 and 2017, for casualty losses arising from a federally declared disaster, the loss may be deducted to the extent that it exceeds $500; the 10% of AGI limitation does not apply. For 2016 and 2017, for a taxpayer who does not itemize deductions, a deductible loss may be added to his or her standard deduction.

Item	Prior Law	TCJA 2017
Itemized deductions subject to the 2.0% of AGI floor	Allowed a deduction for certain items such as expenses for the production or collection of income, tax preparation expenses, and unreimbursed employee expenses to the extent they exceed 2.0% of the taxpayer's AGI.	The new Act suspends all current-law deductions subject to the 2.0% of AGI floor.
Overall limitation on itemized deductions	Limited the amount of otherwise allowable itemized deductions (except for medical expenses, investment interest, casualty, theft, or gambling losses) by 3% of the amount by which a taxpayer's AGI exceeded a specified threshold amount. The otherwise allowable deductions could not be reduced by more than 80.0%.	TCJA 2017 temporarily suspends the overall limitation on itemized deductions.

Calculating the Tax Due

Item	Prior Law	TCJA 2017
Standard deduction	Allowed a taxpayer who did not itemize deductions to reduce AGI by a standard deduction amount to arrive at taxable income. For 2017 these amounts were $6,350 (single, MFS), $9,350 (HoH), and $12,700 (MFJ). An additional standard deduction was allowed for an individual who was elderly or blind.	TCJA 2017 temporarily increases the size of the standard deduction. For 2018, the standard deduction will be $24,000 for MFJ, $18,000 for HoH, and $12,000 for all others. The additional standard deduction for the elderly or blind is not changed.

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Personal and dependent exemptions	A taxpayer was allowed to reduce AGI by any personal or dependent exemption deductions. In 2017, the amount deductible for each personal exemption was $4,050. Certain high-income taxpayers faced a phase-out of their personal exemptions when AGI exceeded certain limits.	The Act temporarily repeals the deduction for personal exemptions.
Individual tax rates and brackets	The tax due for each filing status was determined using a tax table with marginal rates of 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%.	A new tax rate structure will apply, with marginal rates of 10%, 12%, 22%, 24%, 32%, 35%, and 37%.
Child Tax Credit	Prior law allowed a tax credit of $1,000 for each qualifying child under age 17. The aggregate amount of the child credit was phased out for taxpayers with modified AGI in excess of specified amounts. For 2017 these limits were: $75,000 (single or HoH); $110,000 (MFJ); and $55,000 (MFS). For certain taxpayers, a portion of the credit, up to $1,000, was refundable, subject to an earned income limitation of $3,000.	The new law temporarily increases the child tax credit to $2,000 per qualifying child. The credit phases out for taxpayers with modified AGI in excess of $400,000 (MFJ) and $200,000 (all others). The credit also provides for a $500 nonrefundable credit for qualifying dependents other than children. The maximum refundable credit may not exceed $1,400[1] per qualifying child, subject to an earned income limitation of $2,500.

[1] The $1,400 limit is subject to adjustment for inflation using the C-CPI-U.

Item	Prior Law	TCJA 2017
Individual Alternative Minimum Tax (AMT)	The alternative minimum tax (AMT) is a parallel tax system that re-calculates a taxpayer's taxable income in a manner that negates the regular tax treatment of certain deductions and preferences. There is a base amount of income that is exempt from this calculation. In 2017, the exemption amount was $84,500, (MFJ), $54,300 (single, HoH), $42,250 (MFS), and $24,100 (estates and trusts). The exemption was phased-out for income in excess of certain limits: $160,900 (MFJ), $120,700 (single), and $80,450 (MFS, estates and trusts).	For 2018, the AMT exemption amount is increased to $109,400 (MFJ), $54,700 (MFS), and $70,300 (all other taxpayers). The phase-out thresholds are increased to $1,000,000 for married taxpayers filing a joint return, and $500,000 for all other taxpayers. The exemption amount and phase-out thresholds for estates and trust are not affected by the TCJA.

Other Provisions to Note

Item	Prior Law	TCJA 2017
Alternative Inflation Calculation	The CPI-U was used to calculate inflation adjustments to a number of income tax items, such as contribution amounts to retirement plans, the amount of income in various income tax brackets, and phase-out limits. The CPI-U is the Consumer Price Index for All Urban Consumers, a standard measure of inflation calculated by the Bureau of Labor Statistics.	Requires use of a "chained" CPI-U, or C-CPI-U. The C-CPI-U is a variation of the CPI-U.[1] This change is permanent and is generally effective for tax years beginning after December 31, 2017.

[1] Using the C-CPI-U in place of the CPI-U will result in smaller changes in measured inflation and thus smaller adjustments to the tax items affected by it.

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Item	Prior Law	TCJA 2017
Patient Protection and Affordable Care Act (PPACA) – shared responsibility payment (Individual Mandate).	Under the PPACA, individuals were required to be covered by a health plan that provided minimum essential health insurance, or be subject to a penalty for failure to maintain such coverage. Generally, the penalty was equal to a flat dollar amount or an excess income amount.	TCJA effectively repeals the individual mandate by setting the penalty for failure to maintain essential health coverage to zero. This change is permanent and is effective with respect to health coverage status for months beginning after December 31, 2018.
Expanded use of IRC Section 529 plans	IRC Section 529 provides for tax-advantaged higher education savings and pre-paid tuition programs. Tax exempt distributions from such plans were only allowed for post-secondary (college or post-graduate) education. Allowable expenses included tuition and fees, books and supplies, computers and related software, expenses for special needs beneficiaries, and room and board for students enrolled at least half-time.	The Act permanently modifies IRC Section 529 plans to allow such plans to distribute no more than $10,000 in expenses for tuition incurred during a taxable year in connection with the enrollment or attendance of the designated beneficiary at a public, private, or religious elementary or secondary school. The $10,000 limitation applies on a per-student basis. The limitation does not apply to post-secondary expenses.
Estate, Gift Tax, and Generation-Skipping Tax exemption amount	Provided for an individual exemption from gift, estate, and generation-skipping taxes of $5,000,000, in 2011. Adjusted for inflation, this amount would have been $5,600,000 per person in 2018.	Increases the base exemption amount to $10,000,000. Adjusted for inflation, this equals $11,400,000 per person in 2018.

Seek Professional Guidance

The foregoing is a simplified overview of some of the more notable provisions of the Tax Cuts and Jobs Act of 2017 affecting individual taxpayers. To receive maximum benefit from the new legislation, the advice and guidance of trained income tax and legal professionals is highly recommended.