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[President signs tax overhaul into law \(/news/2017/dec/president-signs-tax-cuts-jobs-act-201718112.html\)](/news/2017/dec/president-signs-tax-cuts-jobs-act-201718112.html)

President Donald Trump signed H.R. 1, the Tax Cuts and Jobs Act legislation, thereby making it law.

What the tax reform bill means for individuals

By Alistair M. Nevius

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H.R. 1, known as the Tax Cuts and Jobs Act, which both houses of Congress passed on Dec. 20, contains a large number of provisions that affect individual taxpayers. However, to keep the cost of the bill within Senate budget rules, all of the changes affecting individuals expire after 2025. At that time, if no future Congress acts to extend H.R. 1's provision, the individual tax provisions would sunset, and the tax law would revert to its current state.

Here is a look at many of the provisions in the [bill \(http://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-466.pdf\)](http://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-466.pdf) affecting individuals.

Tax rates

For tax years 2018 through 2025, the following rates apply to individual taxpayers:

Single taxpayers

Taxable income over	But not over	Is taxed at
\$0	\$9,525	10%
\$9,525	\$38,700	12%
\$38,700	\$82,500	22%
\$82,500	\$157,500	24%
\$157,500	\$200,000	32%
\$200,000	\$500,000	35%
\$500,000		37%

Heads of households

Taxable income over	But not over	Is taxed at
\$0	\$13,600	10%
\$13,600	\$51,800	12%
\$51,800	\$82,500	22%
\$82,500	\$157,500	24%
\$157,500	\$200,000	32%
\$200,000	\$500,000	35%
\$500,000		37%

Married taxpayers filing joint returns and surviving spouses

Taxable income over	But not over	Is taxed at
\$0	\$19,050	10%
\$19,050	\$77,400	12%
\$77,400	\$165,000	22%
\$165,000	\$315,000	24%
\$315,000	\$400,000	32%
\$400,000	\$600,000	35%
\$600,000		37%

Married taxpayers filing separately

Taxable income over	But not over	Is taxed at
\$0	\$9,525	10%
\$9,525	\$38,700	12%
\$38,700	\$82,500	22%
\$82,500	\$157,500	24%
\$157,500	\$200,000	32%
\$200,000	\$300,000	35%
\$300,000		37%

Estates and trusts

Taxable income over	But not over	Is taxed at
\$0	\$2,550	10%
\$2,550	\$9,150	24%
\$9,150	\$12,500	35%
\$12,500		37%

Special brackets will apply for certain children with unearned income.

The system for taxing capital gains and qualified dividends did not change under the act, except that the income levels at which the 15% and 20% rates apply were altered (and will be adjusted for inflation after 2018). For 2018, the 15% rate will start at \$77,200 for married taxpayers filing jointly, \$51,700 for heads of household, and \$38,600 for other individuals. The 20% rate will start at \$479,000 for married taxpayers filing jointly, \$452,400 for heads of household, and \$425,800 for other individuals.

Standard deduction: The act increased the standard deduction through 2025 for individual taxpayers to \$24,000 for married taxpayers filing jointly, \$18,000 for heads of household, and \$12,000 for all other individuals. The additional standard deduction for elderly and blind taxpayers was not changed by the act.

Personal exemptions: The act repealed all personal exemptions through 2025. The withholding rules will be modified to reflect the fact that individuals can no longer claim personal exemptions.

Passthrough income deduction

For tax years after 2017 and before 2026, individuals will be allowed to deduct 20% of “qualified business income” from a partnership, S corporation, or sole proprietorship, as well as 20% of qualified real estate investment trust (REIT) dividends, qualified cooperative dividends, and qualified publicly traded partnership income. (Special rules would apply to specified agricultural or horticultural cooperatives.)

A limitation on the deduction is phased in based on W-2 wages above a threshold amount of taxable income. The deduction is disallowed for specified service trades or businesses with income above a threshold.

For these purposes, “qualified business income” means the net amount of qualified items of income, gain, deduction, and loss with respect to the qualified trade or business of the taxpayer. These items must be effectively connected with the conduct of a trade or business within the United States. They do not include specified investment-related income, deductions, or losses.

“Qualified business income” does not include an S corporation shareholder’s reasonable compensation, guaranteed payments, or — to the extent provided in regulations — payments to a partner who is acting in a capacity other than his or her capacity as a partner.

“Specified service trades or businesses” include any trade or business in the fields of accounting, health, law, consulting, athletics, financial services, brokerage services, or any business where the principal asset of the business is the reputation or skill of one or more of its employees.

The exclusion from the definition of a qualified business for specified service trades or businesses phases out for a taxpayer with taxable income in excess of \$157,500, or \$315,000 in the case of a joint return.

For each qualified trade or business, the taxpayer is allowed to deduct 20% of the qualified business income for that trade or business. Generally, the deduction is limited to 50% of the W-2 wages paid with respect to the business. Alternatively, capital-intensive businesses may get a higher benefit under a rule that takes into consideration 25% of wages paid plus a portion of the business’s basis in its tangible assets. However, if the taxpayer’s income is below the threshold amount, the deductible amount for each qualified trade or business is equal to 20% of the qualified business income for each respective trade or business.

Child tax credit

The act increased the amount of the child tax credit to \$2,000 per qualifying child. The maximum refundable amount of the credit is \$1,400. The act also created a new nonrefundable \$500 credit for qualifying dependents who are not qualifying children. The threshold at which the credit begins to phase out was increased to \$400,000 for married taxpayers filing a joint return and \$200,000 for other taxpayers.

Other credits for individuals

The House version of the bill would have repealed several credits that are retained in the final version of the act. These include:

- The Sec. 22 credit for the elderly and permanently disabled;
- The Sec. 30D credit for plug-in electric drive motor vehicles; and
- The Sec. 25 credit for interest on certain home mortgages.

The House bill’s proposed modifications to the American opportunity tax credit and lifetime learning credit also did not make it into the final act.

Education provisions

The act modifies Sec. 529 plans to allow them to distribute no more than \$10,000 in expenses for tuition incurred during the tax year at an elementary or secondary school. This limitation applies on a per-student basis, rather than on a per-account basis.

The act modified the exclusion of student loan discharges from gross income by including within the exclusion certain discharges on account of death or disability.

The House bill's provisions repealing the student loan interest deduction and the deduction for qualified tuition and related expenses were not retained in the final act.

The House bill's proposed repeal of the exclusion for interest on Series EE savings bonds used for qualified higher education expenses and repeal of the exclusion for educational assistance programs also did not appear in the final act.

Itemized deductions

The act repealed the overall limitation on itemized deductions, through 2025.

Mortgage interest: The home mortgage interest deduction was modified to reduce the limit on acquisition indebtedness to \$750,000 (from the prior-law limit of \$1 million).

A taxpayer who entered into a binding written contract before Dec. 15, 2017, to close on the purchase of a principal residence before Jan. 1, 2018, and who purchases that residence before April 1, 2018, will be considered to have incurred acquisition indebtedness prior to Dec. 15, 2017, under this provision, meaning that he or she will be allowed the prior-law \$1 million limit.

Home-equity loans: The home-equity loan interest deduction was repealed through 2025.

State and local taxes: Under the act, individuals are allowed to deduct up to \$10,000 (\$5,000 for married taxpayers filing separately) in state and local income or property taxes.

The conference report on the bill specifies that taxpayers cannot take a deduction in 2017 for prepaid 2018 state income taxes.

Casualty losses: Under the act, taxpayers can take a deduction for casualty losses only if the loss is attributable to a presidentially declared disaster.

Gambling losses: The act clarified that the term "losses from wagering transactions" in Sec. 165(d) includes any otherwise allowable deduction incurred in carrying on a wagering transaction. This is intended, according to the conference report, to clarify that the limitation of losses from wagering transactions applies not only to the actual costs of wagers, but also to other expenses the taxpayer incurred in connection with his or her gambling activity.

Charitable contributions: The act increased the income-based percentage limit for charitable contributions of cash to public charities to 60%. It also denies a charitable deduction for payments made for college athletic event seating rights. Finally, it repealed the statutory provision that provides an exception to the contemporaneous written acknowledgment requirement for certain contributions that are reported on the donee organization's return — a prior-law provision that had never been put in effect because regulations were never issued.

Miscellaneous itemized deductions: All miscellaneous itemized deductions subject to the 2% floor under current law are repealed through 2025 by the act.

Medical expenses: The act reduced the threshold for deduction of medical expenses to 7.5% of adjusted gross income for 2017 and 2018.

Other provisions for individuals

Alimony: For any divorce or separation agreement executed after Dec. 31, 2018, the act provides that alimony and separate maintenance payments are not deductible by the payer spouse. It repealed the provisions that provided that those payments were includible in income by the payee spouse.

Moving expenses: The moving expense deduction is repealed through 2025, except for members of the armed forces on active duty who move pursuant to a military order and incident to a permanent change of station.

Archer MSAs: The House bill would have eliminated the deduction for contributions to Archer medical savings accounts (MSAs); the final act did not include this provision.

Educator's classroom expenses: The final act did not change the allowance of an above-the-line \$250 deduction for educators' expenses incurred for professional development or to purchase classroom materials.

Exclusion for bicycle commuting reimbursements: The act repealed through 2025 the exclusion from gross income or wages of qualified bicycle commuting expenses.

Sale of a principal residence: The act did not change the current rules regarding exclusion of gain from the sale of a principal residence.

Moving expense reimbursements: The act repealed through 2025 the exclusion from gross income and wages for qualified moving expense reimbursements, except in the case of a member of the armed forces on active duty who moves pursuant to a military order.

IRA recharacterizations: The act excludes conversion contributions to Roth IRAs from the rule that allows IRA contributions to one type of IRA to be recharacterized as a contribution to the other type of IRA. This is designed to prevent taxpayers from using recharacterization to unwind a Roth conversion.

Estate, gift, and generation-skipping transfer taxes

The act doubles the estate and gift tax exemption for estates of decedents dying and gifts made after Dec. 31, 2017, and before Jan. 1, 2026. The basic exclusion amount provided in Sec. 2010(c)(3) increased from \$5 million to \$10 million and will be indexed for inflation occurring after 2011.

Individual AMT

While the House version of the bill would have repealed the alternative minimum tax (AMT) for individuals, the final act kept the tax, but increased the exemption.

For tax years beginning after Dec. 31, 2017, and beginning before Jan. 1, 2026, the AMT exemption amount increases to \$109,400 for married taxpayers filing a joint return (half this amount for married taxpayers filing a separate return) and \$70,300 for all other taxpayers (other than estates and trusts). The phaseout thresholds are increased to \$1 million for married taxpayers filing a joint return and \$500,000 for all other taxpayers (other than estates and trusts). The exemption and threshold amounts will be indexed for inflation.

Individual mandate

The act reduces to zero the amount of the penalty under Sec. 5000A, imposed on taxpayers who do not obtain health insurance that provides at least minimum essential coverage, effective after 2018.

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