

# Impact of tax reform on individuals – What exactly is changing?

	Pre-Reform 2018 Tax Rules	Post-Reform 2018 Tax Rules																																																						
<i>Individual tax rates</i>	<ul style="list-style-type: none"> <li>Maximum tax rate is 39.6%</li> <li>Rates associated with specific income brackets are designated below:</li> </ul>	<ul style="list-style-type: none"> <li>Maximum tax rate reduced to 37%</li> <li>Rates associated with specific income brackets are designated below:</li> </ul>																																																						
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<i>Alternative minimum tax (AMT)</i>	<ul style="list-style-type: none"> <li>Exemption amounts of \$86,200 (married) and \$55,400 (single)</li> <li>Phase-out of exemption amount begins at \$164,100 (married) and \$123,100 (single)</li> </ul>	<ul style="list-style-type: none"> <li>Exemption amounts increased to \$109,400 (married) and \$70,300 (single)</li> <li>Phase-out of exemption amount begins at \$1,000,000 (married) and \$500,000 (single)</li> </ul>																																																						
<i>Individual standard deduction/personal exemptions</i>	<ul style="list-style-type: none"> <li>Standard deduction is \$13,000 (married) and \$6,500 (single)</li> <li>Personal exemption of \$4,150 phased out for higher incomes</li> </ul>	<ul style="list-style-type: none"> <li>Standard deduction nearly doubled to \$24,000 (married) and \$12,000 (single)</li> <li>Personal exemptions repealed at all income levels</li> </ul>																																																						

**Pre-Reform 2018 Tax Rules****Post-Reform 2018 Tax Rules**

	<b>Pre-Reform 2018 Tax Rules</b>	<b>Post-Reform 2018 Tax Rules</b>
<i>Itemized deductions</i>	<ul style="list-style-type: none"><li>• Deductions allowed but subject to the “PEASE limitation,” which reduces availability of itemized deductions at income levels starting at \$320,000 (married) and \$266,700 (single)</li></ul>	<ul style="list-style-type: none"><li>• Individual deduction for state and local taxes (SALT) for income, sales and property is limited in the aggregate to \$10,000 (married and single filers) and \$5,000 (married filing separately)</li><li>• “PEASE limitation” (including for charitable contributions) is repealed</li><li>• Most miscellaneous itemized deductions that were subject to the 2% of AGI floor will no longer be allowed (e.g. tax preparation and investment expenses)</li></ul>
<i>Capital gain /qualified dividend rate</i>	<ul style="list-style-type: none"><li>• Maximum tax rate on long-term capital gains and qualified dividend income (before 3.8% net investment income tax) is 20%</li></ul>	<ul style="list-style-type: none"><li>• Unchanged</li></ul>
<i>Medical expense deduction</i>	<ul style="list-style-type: none"><li>• Floor of 10% of AGI before deduction can be taken</li></ul>	<ul style="list-style-type: none"><li>• Floor reduced to 7.5% of AGI for tax years 2017 and 2018</li></ul>
<i>Cost of securities</i>	<ul style="list-style-type: none"><li>• Investors have the ability to “specifically identify” which tax lot of a security is sold</li></ul>	<ul style="list-style-type: none"><li>• Unchanged</li></ul>
<i>Mortgage interest</i>	<ul style="list-style-type: none"><li>• Individuals are generally allowed an itemized deduction for interest on<ol style="list-style-type: none"><li>1. Principal residence and second residence mortgages up to \$1,000,000 (married) or \$500,000 (single) (limit applies on a combined basis)</li><li>2. Home Equity Line of Credit (HELOC) up to \$100,000</li></ol></li></ul>	<ul style="list-style-type: none"><li>• Individuals are generally allowed an itemized deduction for interest on principal residence and second residence mortgages up to a combined \$750,000</li><li>• Pre 12/16/17 mortgages are grandfathered and new purchase money mortgages may be grandfathered if the purchase contract is dated before 12/16/17 and other conditions are met</li><li>• Refinancing of grandfathered mortgages are grandfathered, but not beyond the original mortgage’s term/amount (some exceptions apply for “balloon payment” mortgages)</li><li>• Interest on a HELOC is no longer deductible</li></ul>

	<b>Pre-Reform 2018 Tax Rules</b>	<b>Post-Reform 2018 Tax Rules</b>
<i>Capital gain exclusion for primary residence</i>	<ul style="list-style-type: none"> <li>Allows individuals to exclude gain of up to \$500,000 (for joint filers) from the sale of a primary residence</li> <li>Taxpayer must own and use the house as primary residence for 2 out of the previous 5 years and exemption can be used only once every 2 years</li> </ul>	<ul style="list-style-type: none"> <li>Unchanged</li> </ul>
<i>Like-kind exchanges</i>	<ul style="list-style-type: none"> <li>Allows for the disposal of an asset and the acquisition of another replacement asset without generating a current tax liability from the gain on the sale of the first asset</li> <li>Applies to like-kind exchanges of real property as well as certain categories of personal property</li> </ul>	<ul style="list-style-type: none"> <li>Limits applicability to like-kind exchanges of real property that is not held primarily for sale</li> </ul> <p>**This does not expire in 2025</p>
<i>Section 529 plans</i>	<ul style="list-style-type: none"> <li>Distributions may be used for expenses relating to higher (post-secondary) education</li> </ul>	<ul style="list-style-type: none"> <li>In addition to higher (post-secondary) education, distributions from 529 plans of up to \$10,000/year per student can be used for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school</li> </ul> <p>**This does not expire in 2025</p>
<i>Pass-through deduction</i>	<ul style="list-style-type: none"> <li>Income received from partnerships, S corporations, or sole proprietorships is passed-through to the owner's individual tax returns, where it is taxed as ordinary income</li> </ul>	<ul style="list-style-type: none"> <li>There is a new 20% deduction for qualified business income from a partnership, S corporation, or sole proprietorship</li> </ul>
<i>Charitable deduction changes</i>	<ul style="list-style-type: none"> <li>Cash gift to public charities is deductible as long as it doesn't exceed 50% of the taxpayers Adjustable Gross Income (AGI)</li> <li>80% of value spent on university athletics seating rights can be deducted</li> </ul>	<ul style="list-style-type: none"> <li>Cash gift to public charities is deductible as long as it doesn't exceed 60% of the taxpayers Adjustable Gross Income (AGI)</li> <li>80% deduction for university athletic seating rights is repealed</li> </ul>
<i>Gift/estate/generation-skipping transfer (GST) tax exemption</i>	<ul style="list-style-type: none"> <li>Estate, gift and GST tax exemptions are each \$5.6 million per US domiciliary</li> </ul>	<ul style="list-style-type: none"> <li>Doubles the estate, gift and GST tax exemptions to \$11.2 million per US domiciliary</li> <li>Like most individual provisions, the exemptions sunset after 2025 and revert back to the law in effect for 2017 with inflation adjustments; possibility for "clawback" at death if law is not changed</li> </ul>

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**Pre-Reform 2018 Tax Rules****Post-Reform 2018 Tax Rules**

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*Child Tax Credit*

- \$1000/qualified child
  - Phase-out of credit begins at \$75,000 (single) and \$110,000 (married)
- Increases to \$2,000/qualified child, with \$1,400 being refundable
  - Phase-out of credit begins at \$200,000 (single) and \$400,000 (married)

*Individual mandate / Health Insurance*

- Requires most Americans to purchase health insurance coverage; taxpayers must submit proof of healthcare coverage with their tax return or pay a penalty
- Individual mandate is repealed  
\*\*This does not expire in 2025

*Future Inflation Adjustments*

- In general, tax brackets and many other tax code limits are inflation adjusted using Consumer Price Index – Urban (or CPI-U)
- Many but not all of the indexed limits would now be indexed using Chained-CPI-U, which generally leads to slightly slower cost of living adjustments each year  
\*\*This does not expire in 2025
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