Tax Reform Law: What Clients Should Know

The Tax Cuts and Jobs Act was signed into law on Dec. 22, 2017, overhauling the Internal Revenue Code and providing broad tax relief to workers, families and businesses of all sizes. It lowers tax rates for individual and business taxpayers, and eliminates or reduces various tax deductions and credits. Most of the provisions contained in the Tax Reform Act apply to tax year 2018 and future years up to Dec. 31, 2025.

If you are not sure about what to expect, consider meeting with us to prepare a tax projection for tax year 2018. We may be able to help lower your taxes with careful planning to take advantage of the new law.

Top tax changes for individuals and families

- Individual tax rates lowered by about 2% at each bracket to 0%, 10%, 12%, 22%, 24%, 32%, 35% and 37%.
- Personal exemption eliminated and standard deduction increased to $12,000 for individuals and $24,000 for married couples.
- Taxpayers are allowed to deduct 1) property taxes and 2) state and local income taxes (or sales taxes in lieu of income taxes) up to a $10,000 maximum.
- The child tax credit is increased from $1,000 to $2,000 and is refundable up to a $1,400 maximum. The credit begins to phase-out for families earning over $400,000.
- The mortgage interest deduction is preserved for new mortgages on a first or second home. Home equity debt interest not used to improve the home is suspended.
- The estate and gift tax exemption is doubled from $5 million to $10 million.

Top tax changes for small businesses

- The corporate tax rate is lowered from 35% to 21% beginning Jan. 1, 2018.
- A 20% tax deduction is allowed for income earned from sole proprietorships, limited liability companies, partnerships and S corporations. The deduction applies to the first $315,000 of income for joint filers (and $157,500 for other filers) and reduces their effective marginal rate to a 29.6% maximum. Wage income is not eligible for the lower rates on business income.
- Businesses are allowed to write off the full cost of new equipment purchases.
- The Section 179 expensing limit of $500,000 (with $2 million phase-out) is increased to $1 million (with 2.5 million phase-out).
- Luxury automobile depreciation limits increased to $10,000 for the first year if you are not claiming bonus depreciation, and $18,000 for the first year if you are claiming bonus depreciation.
- Small businesses can continue to write off interest on loans.
- The domestic production activities deduction is repealed beginning in 2018.