LCNB National Bank

Tax Cut and Jobs Act:
A Summary of Changes Impacting Individual Taxpayers

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The Tax Cut and Jobs Act ("TCJA") was signed into law on December 22, 2017. There is a great deal of information floating around and it is hard to decipher which changes impact the average taxpayer. The following summarizes the changes that most likely will impact individuals. Except where noted, the changes go into effect for the 2018 tax year (starting on January 1. 2018). This allows taxpayers time to review their financial and tax plans and work with their tax professional or attorney.

2018 TAX RATES

For tax years 2018 through 2025, the TCJA retains the seven tax brackets, but decreases the rates and increases the thresholds.

Rate	Married Filing Jointly	Single
10%	$0 - $19,050	$0 - $9,525
12%	$19,050 - $77,400	$9,525 - $38,700
22%	$77,400 - $165,000	$38,700 - $82,500
24%	$165,000 - $315,000	$82,500 - $157,500
32%	$315,000 - $400,000	$157,500 - $200,000
35%	$400,000 - $600,000	$200,000 - $500,000
37%	Over $600,000	Over $500,000

DEDUCTIONS

Standard Deductions & Personal Exemptions

- In 2018, the standard deduction is nearly double the 2017 standard deduction at $24,000 for Married Filing Jointly ("MFJ") and $12,000 for single taxpayers.
  - The additional standard deduction for the elderly or blind remains.
- The personal exemption was eliminated. In 2017 and prior years, a personal exemption was allowed for the taxpayer and each individual claimed as a dependent. The repeal of the personal exemption will affect those taxpayers who claimed more than five dependents, though an increase in the child tax credit and the new non-child dependent credit aim to ease the burden.

Property, State and Local Income Taxes

- Starting in 2018, taxpayers may deduct up to $10,000 per year in *combined* property, state and local income taxes. There is an option to substitute state sales tax for state income tax.
- This change affects taxpayers who own homes with high property taxes, as well as taxpayers who live in states with a high state income tax rate.

Mortgage Interest

- Taxpayers may deduct interest on new mortgages (acquisition debt) of up to $750,000 for newly acquired first or second homes.
- Existing mortgages, up to $1 Million, will be grandfathered.
- Taxpayers can no longer deduct interest for home equity loans or home equity lines of credit.

Medical Expenses

- For **2017** and 2018, the floor to deduct medical expenses is reduced to 7.5% of adjusted gross income. The floor increases to 10% thereafter.

Charitable Donations

- TCJA raises the adjusted gross income limitation for deductions from 50% to 60% for *cash* donations to public charities for tax years 2018 through 2025.

Other Miscellaneous Itemized Deductions

- Miscellaneous itemized deductions subject to a 2% floor were eliminated.
    - Common examples include, tax preparation fees, unreimbursed employee expenses, investment advisory fees, etc.

"ABOVE THE LINE" DEDUCTIONS (Deductions to arrive at adjusted gross income)

Alimony

- The deduction for alimony is eliminated for separation agreements executed after December 31, 2018. For such separation agreements, the payor cannot deduct the alimony payments and the payee does not report it as income.
- Payments under existing separation agreements are grandfathered.

Educator Expenses

- Remains the same! K-12 educators can deduct up to $250 per year for unreimbursed classroom supplies.

Student Loan Interest

- Remains the same! Qualifying Taxpayers can deduct up to $2,500 for interest paid on student loans.

CREDITS

Child Tax Credit

- The credit is increased to $2,000 per child under age 17.
- The credit is now refundable, up to $1,400. This change will benefit taxpayers who previously did not have enough income to offset the credit.
- The credit begins to phase-out for taxpayers with modified adjusted gross income of over $400,000 (MFJ) or $200,000 (single). This phase-out more than doubles the current phase-out range.

Non-Child Dependents Credit

- A new $500 nonrefundable credit is allowed for non-child dependents, such as an elderly parent or a child who is too old to qualify for the child tax credit, subject to income limits.
- The credit cannot be claimed for the taxpayer or spouse.
- There are no age limits, but the dependency tax tests must be met.

MISCELLANEOUS

Gift, Estate, and GST Tax Exemptions

- The 2018 exemption is increased to $11.2 Million for individuals. Portability remains in effect, so married couples may shield up to $22.4 Million.
- The exemptions will revert to inflation-adjusted 2017 rates in 2026, absent further Congressional action.

Annual Gift Tax Exclusion

- The annual gift tax exclusion is increased to $15,000 for 2018.

529 Plans

- Beginning in 2018, tax-free distributions, up to $10,000 per student, from 529 Plans can be used for elementary and secondary schools.
- The rules for higher education expenses remain the same.

Alternative Minimum Tax (“AMT”)

- The AMT is retained, but the exemption amount is increased for 2018 through 2025. The exemption amount is $109,400 MFJ and $70,300 for single taxpayers. These amounts will be indexed for inflation after 2018.
- AMT exemption phase-out thresholds increase to $1 Million for MFJ and $500,000 for singles.

Kiddie Tax

- A child will be taxed on unearned income using the Trust & Estates Tax Brackets, which are taxed at the highest marginal rate (37% for 2018) once the taxable income reaches $12,500.

Roth IRA Re-Characterization

- A conversion from a traditional IRA to a Roth IRA can no longer be re-characterized back to a traditional IRA.

CONCLUSION

As with any changes to the law, we anticipate further guidance, regulations, and changes in the coming year. However, now is the time to contact your tax preparer or attorney to review your situation and the impact of TCJA.