How the Tax Reform Act of 2017 will Affect Individuals

The Tax Cuts and Jobs Act, H.R. 1, passed by Congress and signed by the President in 2017, contains a large number of provisions that would affect individual taxpayers. However, to keep the cost of the bill within Senate budget rules, all of the changes affecting individuals would 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 affecting individuals.

Tax rates

For tax years 2018 through 2025, the following rates would 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 would apply for certain children with unearned income.

Standard deduction: The bill would increase the standard deduction through 2025 for individual taxpayers to $24,000 for married taxpayers filing jointly, $18,000 for heads of households, and $12,000 for all other individuals. The additional standard deduction for elderly and blind taxpayers is not changed by the bill.

Personal exemptions: The bill would repeal 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 would be allowed to deduct 20% of “qualified business income” from a partnership, S corporation, or sole proprietorships, 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 would be phased in based on W-2 wages above a threshold amount of taxable income. The deduction would also be disallowed for specified service trades or businesses with income above a threshold.

For these purposes, “qualified business income” would mean 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” would 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 in 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 with respect to such 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 yield 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 with respect to each respective trade or business.

Child tax credit

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

Other credits

The House version of the bill would have repealed several credits that are retained in the final version of the bill.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

Education provisions

The bill would modify 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 a per-account basis. Certain homeschool expenses would also qualify as eligible expenses for purposes of the Sec. 529 rules.

The bill would modify 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 bill.

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

Itemized deductions

The bill would repeal the overall limitation on itemized deductions, through 2025.

Mortgage interest: The home mortgage interest deduction would be modified to reduce the limit on acquisition indebtedness to $750,000 (from the current-law $1 million).

A taxpayer who has 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 they will be allowed the current-law $1 million limit.

Home equity loans. The home equity loan interest deduction would be repealed through 2025.

State and local taxes: Under the final bill, individuals would be 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 bill, taxpayers can only take a deduction for casualty losses if the loss is attributable to a presidentially declared disaster.

Gambling losses: The bill would clarify 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 incurred by the taxpayer in connection with his or her gambling activity.

Charitable contributions: The bill would increase the income-based percentage limit for charitable contributions of cash to public charities to 60%. It would also deny a charitable deduction for payments made for college athletic event seating rights. Finally, it would repeal 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 current-law provision that has never been put in effect because regulations have not been issued.

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

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

Other provisions

Alimony: For any divorce or separation agreement executed after Dec. 31, 2018, the bill would provide that alimony and separate maintenance payments are not deductible by the payor spouse. It would also repeal the provisions that provide that such payments are includible in income by the payee spouse.

Moving expenses: The moving expense deduction would be 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 MSAs; the final bill does not include this provision.

Educator's classroom expenses: The final bill does not change the current-law 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 bill would repeal through 2025 the exclusion from gross income or wages of qualified bicycle commuting expenses.

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

Moving expense reimbursements: The bill would repeal 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 bill would exclude 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 would prevent taxpayers from using recharacterization to unwind a Roth conversion.

Estate, gift, and generation-skipping transfer taxes

The bill would double 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) would increase from $5 million to $10 million and would be indexed for inflation occurring after 2011.

Alternative minimum tax

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

For tax years beginning after Dec. 31, 2017, and beginning before Jan. 1, 2026, the AMT exemption amount would increase 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 would be 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 would indexed for inflation.

Individual mandate

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