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The New Tax Cuts And Job Act

What You Should Know And How You Will Be Affected???

Yes, it was Friday, December 22, 2017 and after many years of debate and much political jockeying; the latest GOP Tax Bill was signed into law. It's expected that the effects of the new tax law will be felt immediately.

Supposedly, this Tax Cuts and Jobs Act, represent the largest one-time reduction in the corporate tax rate in U.S. history, from 35 percent down to 21 percent. The bill also lowers taxes for the vast majority of Americans, as well as small-business owners, temporarily or at least until the cuts expire after eight years.

Last minute political jockeying surrounding the passage of the bill ensued, giving a larger tax break to the wealthy and preserves certain tax savings for the middle class, including the student loan interest deduction, the deduction for excessive medical expenses and the tax break for graduate students. Another last minute change made expanded the child tax credit even further, to give more money to working-class families.

What is changing?

A new tax cut for the rich: The final plan lowers the top tax rate for top earners. Under current law, the highest rate is 39.6 percent for married couples earning over $470,700. The GOP sponsored bill would drop that to 37 percent and raise the threshold at which that top rate kicks in, to $500,000 for individuals and $600,000 for married couples.

This amounts to a significant tax break for the very wealthy, a departure from repeated claims by Politicians that the bill would not benefit the rich. The new tax break for millionaires goes beyond what was in the original House and Senate bills, with Republicans seeking to ensure wealthy earners in states such as New York, Connecticut and California don't end up paying substantially higher taxes as a result of the bill.

A massive tax cut for corporations: Starting on Jan. 1, 2018, big businesses' tax rate would fall from 35 percent to just 21 percent, the largest one-time rate cut in U.S. history for the nation's largest companies.

This amounts to roughly a $1 trillion tax cut for businesses over the next decade. It is argued that this will make the economy surge in the coming years. To the contrary; most independent economists and Wall Street banks predict only a modest and short-lived boost to growth, if any.

You can deduct just $10,000 in state, local and property taxes: One of the most controversial parts of the GOP tax plan is the push to significantly pull back how much state and local taxes Americans can deduct on their federal income taxes. Under current law, the state and local deduction (SALT) is unlimited.

In the final GOP plan, people can deduct up to $10,000 (married couples are also limited to just $10,000). Any state and local tax can be deducted, whether for property, income or sales taxes.

The move is widely viewed as a negative for residents in states such as New York, Connecticut and California, and there are concerns it could cause property values to fall in high-tax cities. If this happens, less money will be available for public schools and road repairs.

Most Americans will pay less in taxes until 2026. The plan lowers the tax rates for each income level and nearly doubles the standard deduction, while eliminating deduction for personal exemptions.

This change will cause most Americans to see their tax bills drop next year. The amount of decrease a taxpayer experience will vary greatly depending upon the size, location and circumstances of each family. Be mindful that all of the individual tax cuts are scheduled to go away after 2025. The new tax deductions for businesses are permanent.

Working-class families get a bigger child tax credit: The child tax credit is more generous for low-income families and the working class. Currently, the child tax credit is $1,000 per child. The new child tax credit has been expanded to $2000 has been expanded to $2,000 per child.

Now, families making up to about $400,000 get to take the credit, but it also makes more of the tax credit refundable, meaning families that work but don't earn enough to actually owe any federal income taxes will get a large check back from the government. Benefits for those families are now at $1,400.

The mortgage interest deduction gets smaller: Under the current tax code, taxpayers can deduct any interest they pay on up to $1 million worth of mortgage loans. The new law allows interest deduction on up to $750,000 worth of mortgage loans. Existing mortgages are unaffected by the plan.

The individual health insurance mandate goes away in 2019: Beginning in 2019, Americans would no longer be required by law to buy health insurance (or pay a penalty if they don't).

The Congressional Budget Office projects the change will increase insurance premiums and lead to 13 million fewer Americans with insurance in a decade, while also cutting government spending by more than $300 billion over that period. Hopefully, Congress will make other changes to health care to prevent insurance costs from rising dramatically by the time the mandate goes away.

You can pass your heirs up to $22 million tax-free: In the end, the estate tax (commonly referred to as the "death tax") would remain part of the U.S. tax code, but far fewer families will pay it. Under current law, Americans can pass on up to $5.5 million tax-free (that threshold is $11 million for married couples).

"Pass through" companies get a 20 percent reduction: Most American businesses are organized as "pass through" companies in which the income from the business is "passed through" to the business owner's individual tax return. S corporations, LLCs, partnerships and sole proprietorships are all examples of pass-through businesses.

In the final GOP bill, the majority of these companies get to deduct 20 percent of their income tax-free, a free non expense deduction. This change expires after 2025. Service businesses such as law firms, doctor's offices and investment offices can take only the 20 percent deduction if they make up to $315,000 (for married couples).

No corporate "AMT" tax: The final GOP bill gets rid of the corporate alternative minimum tax, a big relief to the business community. The corporate AMT makes it difficult for businesses to reduce their tax bill much lower than 21 percent. CEOs complained that this was a backdoor tax that would make them less likely to build new plants, buy more equipment and invest in more research, since the corporate AMT made the tax credits for those investments essentially null and void. So, there is no more corporate alternative minimum tax.

Fewer families will have to pay the individual AMT: The AMT for individuals started in 1969 as a way to prevent rich families from using so many credits and loopholes to lower their tax bill to almost nothing. But what started out as a way to prevent the wealthiest Americans from tax dodging started to hit more and more families over time.

The AMT currently kicks in fully for individuals earning over $120,700 and married couples earning over $160,900. Under the final Senate bill, that threshold is lifted to $500,000 for individuals and $1 million for married couples. (Some families in the $200,000 to $500,000 range will still have to pay AMT, but they will pay far less than they were before).

What is NOT changing?

The new law keeps in place the **student loan deduction**, the **medical expense deduction** and the **graduate student tuition waivers and deductions for charitable donations to non-profits. Retirement accounts such as 401(k) plans stay the same.** No changes to the tax-free amounts people are allowed to put into 401(k) s, IRAs and Roth IRAs.

Conclusion:

I've endeavored to give you the essentials of the new tax; what you should know and how it will affect you. But, if you are interested in extra reading; you are welcome to read the final bill (505 pages) that was enacted into law by clicking link below.

http://apps.washingtonpost.com/g/documents/business/read-the-full-gop-tax-bill/2678/

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