# Overview of the Tax Cuts and Jobs Act

Major **tax reform** that affects both individuals and businesses was enacted in December 2017. It's commonly referred to as the Tax Cuts and Jobs Act, TCJA or tax reform.

The IRS estimates that we will need to create or revise more than 400 taxpayer forms, instructions and publications for the filing season starting in 2019. It's more than double the number of forms we would create or revise in a typical year.

The IRS collaborates with the tax professional community, industry, and tax software partners each year as we implement changes to the tax law, including the Tax Cuts and Jobs Act, to ensure that our shared customer – you, the taxpayer - has information about how the law applies to your particular situation and you are prepared to file.

Using tax preparation software is the best and simplest way to file a complete and accurate tax return. The software guides you through the process and does all the math. **Electronic filing options** include **IRS Free File** for taxpayers who qualify, **Free File Fillable Forms** for all taxpayers, **commercial software**, and **professional assistance**. The IRS Volunteer Income Tax Assistance (VITA) and the Tax Counseling for the Elderly (TCE) programs offer **free tax help** and e-file for taxpayers who qualify.

This publication covers some of the provisions of the TCJA. It provides information for you and your family to help you understand, take action - if necessary - and comply with your federal tax return filing requirements.

It is not intended to replace or supersede IRS tax forms, instructions or other official guidance.

The official **IRS.gov** website includes a **Tax Reform page** that highlights what you need to know about the tax law changes. This page also provides links to news releases, publications, notices, and legal guidance related to the legislation.

**IRS.gov/getready** has information about steps you can take now to get a jump on next year's taxes including how the new tax law may affect you.

# Changes in Tax Rates

For 2018, most tax rates have been reduced. This means most people will pay less tax starting this year. The 2018 tax rates are 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

In addition, for 2018, the tax rates and brackets for the unearned income of a child have changed and are no longer affected by the tax situation of the child's parents. The new tax rates applicable to a child's unearned income of more than $2,550 are 24%, 35%, and 37%.

In addition to lowering the tax rates, some of the changes in the law that affect you and your family include increasing the standard deduction, suspending personal exemptions, increasing the child tax credit, and limiting or discontinuing certain deductions.

Most of the changes in this legislation take effect in 2018 for federal tax returns filed in 2019. It is important that individual taxpayers consider what the TCJA means and make adjustments in 2018 and 2019.

# Federal income tax withholding may need adjustment

The Tax Cuts and Jobs Act changed the way taxable income is calculated and reduced the tax rates on that income.

The IRS had to address and make changes to income tax withholding in response to the new law as soon as possible after it passed. This issue affects every taxpayer who receives a paycheck.

The U.S. tax system operates on a pay-as-you-go basis. Taxpayers must generally pay at least 90 percent of their taxes throughout the year through withholding, estimated or additional tax payments or a combination of the two.

**THIS MEANS THAT…**you need to pay most of your tax during the year, as the income is earned or received. If you don't, you may owe an estimated tax penalty when you file.

# Changes to Itemized Deductions

In addition to nearly doubling standard deductions, the Tax Cuts and Jobs Act changed several itemized deductions that can be claimed on Schedule A, Itemized Deductions.

**THIS MEANS THAT…**Many individuals who formerly itemized may now find it more beneficial to take the standard deduction. Check your 2017 itemized deductions to make sure you understand what these changes mean to your tax situation for 2018.

Almost everyone who previously itemized before is affected by changes from the Tax Cuts and Jobs Act. The changes to both the standard deduction and itemized deductions could affect how much you need to have your employer withhold from your pay. Even if you continue to itemize deductions, you should check your withholding.

You may not take the standard deduction if you claim itemized deductions. Alternatively, if you take the standard deduction, you may not claim itemized deductions. For married filing separate taxpayers, if one spouse elects to itemize, the other spouse is also required to itemize.  That's why it is important that you consider what these changes mean for you and your family.

**For 2018, the following changes have been made to itemized deductions that can be claimed on Schedule A.**

**Limit on overall itemized deductions suspended.**

You may be able to deduct more of your total itemized deductions if your itemized deductions were limited in the past due to the amount of your adjusted gross income. The old rule that limited the total itemized deductions for certain higher-income individuals has been suspended.

**THIS MEANS THAT…**if you do itemize… your itemized deductions are no longer limited if your adjusted gross income is over a certain amount.

**Deduction for medical and dental expenses modified.**

You can deduct certain unreimbursed medical expenses that exceed 7.5% of your 2018 adjusted gross income. Before this law change, unreimbursed medical expenses had to exceed 10% of adjusted gross income for most taxpayers in order to be deductible.

**THIS MEANS THAT…**if you do itemize…you can deduct the part of your eligible medical and dental expenses that is more than 7.5 percent of your 2018 adjusted gross income.

**WHAT'S NEXT FOR TAX YEAR 2019? If you plan to itemize for tax year 2019 your unreimbursed medical and dental expenses will have to exceed 10% of your 2019 adjusted gross income in order to be deductible.**

**Deduction for state and local income, sales and property taxes modified.**

Your total deduction for state and local income, sales and property taxes is limited to a combined, total deduction of $10,000 ($5,000 if Married Filing Separate). Any state and local taxes you paid above this amount cannot be deducted.

No deduction is allowed for foreign real property taxes. Property taxes associated with carrying on a trade or business are fully deductible.

**THIS MEANS THAT…**if you do itemize… you can deduct state and local income, sales, and property taxes but only up to $10,000 ($5,000 if Married Filing Separate).

Your deduction for mortgage interest is limited to interest you paid on a loan secured by your main home or second home that you used to buy, build, or substantially improve your main home or second home.

**THIS MEANS THAT…**if you do itemize… that interest paid on most home equity loans is not deductible unless the loan proceeds were used to buy, build, or substantially improve your main home or second home.

For example, interest on a home equity loan used to build an addition to an existing home is typically deductible, while interest on the same loan used to pay personal living expenses, such as credit card debts, is not.

As under prior law, the loan must be secured by the taxpayer's main home or second home (known as a qualified residence), not exceed the cost of the home and meet other requirements.

**New dollar limit on total qualified residence loan balance.**

The date you took out your mortgage or home equity loan may also impact the amount of interest you can deduct. If your loan was originated or treated as originating on or before Dec. 15, 2017, you may deduct interest on up to $1,000,000 ($500,000 if you are married filing separately) in qualifying debt. If your loan originated after that date, you may only deduct interest on up to $750,000 ($375,000 if you are married filing separately) in qualifying debt. The limits apply to the combined amount of loans used to buy, build or substantially improve the taxpayer's main home and second home.

**THIS MEANS THAT…**if you do itemize…for existing mortgages, you can continue to deduct interest on a total of $1 million in qualifying debt secured by first and second homes but for new homeowners buying in 2018, you can only deduct interest on a total of $750,000 in qualifying debt for a first and second home.

**Limit for charitable contributions modified.**

The limit on charitable contributions of cash has increased from 50 percent to 60 percent of your adjusted gross income.

**THIS MEANS THAT…**if you do itemize …you may be able to deduct more of your charitable cash contributions this year.

For more information, see the 2018 Publication 526, Charitable Contributions.

**Deduction for casualty and theft losses modified.**

Net personal casualty and theft losses are deductible only to the extent they're attributable to a federally declared disaster. Claims must include the FEMA code assigned to the disaster. See the 2018 Instructions for Form 4684, Casualty and Theft Losses, for more information about 2018 disasters.

The loss must still exceed $100 per casualty and the net total loss must exceed 10 percent of your AGI. In addition, you can still elect to deduct the casualty loss in the tax year immediately preceding the tax year in which you incurred the disaster loss.

**THIS MEANS THAT…**if you do itemize…your personal casualty and theft losses must be attributed to a federally declared disaster.

See IRS Publication 976, Disaster Relief, for information about personal casualty losses resulting from federally declared disasters that occurred in 2016, as well as certain 2017 disasters, including Hurricane Harvey, Tropical Storm Harvey, Hurricane Irma, Hurricane Maria, and the California wildfires, that may be claimed as a qualified disaster loss.

**Miscellaneous itemized deductions suspended.**

The previous deduction for job-related expenses or other miscellaneous itemized deductions that exceeded 2 percent of your adjusted gross income is suspended. This includes unreimbursed employee expenses such as uniforms, union dues and the deduction for business-related meals, entertainment and travel, as well as any deductions you may have previously been able to claim for tax preparation fees and investment expenses, including investment management fees, safe deposit box fees and investment expenses from pass-through entities. The business standard mileage rate listed in Notice 2018-03 cannot be used to claim an itemized deduction for unreimbursed employee travel expenses during the suspension.

**THIS MEANS THAT…**if you do itemize…if your miscellaneous itemized deductions previously needed to exceed 2% of your adjusted gross income, they are no longer deductible.

For more information, see the 2018 Instructions for **Schedule A**, Itemized Deductions.

## Deduction and Exclusion for moving expenses suspended

The deduction for moving expenses is suspended. During the suspension, no deduction is allowed for use of an automobile as part of a move. This suspension does not apply to members of the U.S. Armed Forces on active duty who move pursuant to a military order related to a permanent change of station.

Also, employers will include moving expense reimbursements as taxable income in the employees' wages because the new law suspends the former exclusion from income for qualified moving expense reimbursements from an employer. This suspension does not apply to members of the U.S. Armed Forces on active duty who move pursuant to a military order related to a permanent change of station as long as the expenses would qualify as a deduction if the government didn't reimburse the expense.

**THIS MEANS THAT…** unless you are a member of the U.S. military on active duty, you cannot deduct moving expenses and amounts reimbursed by an employer will be taxable income.

## Changes to Benefits for Dependents

### Deduction for personal exemptions suspended

For 2018, you can't claim a personal exemption deduction for yourself, your spouse, or your dependents.

**THIS MEANS THAT…**you will not be able to reduce the income that is subject to tax by the exemption amount for each person included on your tax return as you have in previous years.

However, changes to the standard deduction amount and Child Tax Credit may offset at least part of this change for most families and, in some cases, may result in a larger refund.

### Child tax credit and additional child tax credit

For 2018, the maximum credit increased to $2,000 per qualifying child. Up to $1,400 of the credit can be refundable for each qualifying child as the additional child tax credit. In addition, the income threshold at which the child tax credit begins to phase out is increased to $200,000, or $400,000 if married filing jointly.

**THIS MEANS THAT…** more families with children under 17 qualify for the larger credit.

### Credit for other dependents

A new credit of up to $500 is available for each of your qualifying dependents other than children who can be claimed for the child tax credit. The qualifying dependent must be a U.S. citizen, U.S. national, or U.S. resident alien. The credit is calculated with the child tax credit in the form instructions. The total of both credits is subject to a single phase out when adjusted gross income exceeds $200,000, or $400,000 if married filing jointly.

**THIS MEANS THAT…**you may be able to claim this credit if you have children age 17 or over, including college students, children with ITINs, or or other older relatives in your household.

## Repeal of deduction for alimony payments

Alimony and separate maintenance payments are no longer deductible for any divorce or separation agreement executed after December 31, 2018, or for any divorce or separation agreement executed on or before December 31, 2018, and modified after that date. Further, alimony and separate maintenance payments are no longer included in income based on these dates, so you won't need to report these payments on your tax return if the payments are based on a divorce or separation agreement executed or modified after December 31, 2018.

**WHAT'S NEXT FOR TAX YEAR 2019?** … divorce or separation agreements executed or modified after Dec 31, 2018 providing alimony will have different tax consequences. The alimony payments will not be deductible for the spouse who makes alimony payments and they will not be included in the income of the receiving spouse.

## Reporting Health Care Coverage

Under the Tax Cuts and Jobs Act, you must continue to report coverage, qualify for an exemption, or report an individual shared responsibility payment for tax year 2018.

If you need health coverage, visit HealthCare.gov to learn about health insurance options that are available for you and your family, how to purchase health insurance, and how you might qualify to get financial assistance with the cost of insurance.

Most taxpayers have qualifying health coverage or a coverage exemption for all 12 months in the year, and will check the box on the front of their tax return.

**THIS MEANS THAT...** For tax year 2018, the IRS will not consider a return complete and accurate if you do not report full-year coverage, claim a coverage exemption, or report a shared responsibility payment on the tax return. You remain obligated to follow the law and pay what you may owe at the point of filing.

## Alternative minimum tax (AMT) exemption amount increased

The AMT exemption amount is increased to $70,300 ($109,400 if married filing jointly or qualifying widow(er); $54,700 if married filing separately). The income level at which the AMT exemption begins to phase out has increased to $500,000 or $1,000,000 if married filing jointly.

**THIS MEANS THAT…**far fewer taxpayers will pay the AMT.