The 2018 Tax Law: What The Changes Mean To You

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Taxes can be confusing for even the most experienced tax preparers. And now, with the new tax law in place (effective January 1, 2018), there are even more reasons to feel that way. The Tax Cuts and Jobs Act that was signed into law in December 2017 is over 500 pages long. That's a lot of new stuff to know. So to make sense of the changes, we've put together this handy cheat sheet. It highlights the most significant changes found in the new law—the ones that impact most individual taxpayers. Hopefully it will clear some things up and make the new law a bit less intimidating.

1. Tax Rates Have Been Lowered

While there was talk of reducing the number of federal tax brackets, the new tax law maintains the same number—seven. But the rates for each bracket have been lowered. The new ones are 10%, 12%, 22%, 24%, 32%, 35%, and 37%. While the rates have gone down overall, the income levels have changed too, so you could fall into a lower or higher bracket, depending on where you are on the chart.

2. The Standard Deduction Has Nearly Doubled

The new tax law increases the standard deduction for individuals from $6,500 to $12,000 and $13,000 to $24,000 for couples filing jointly. This means that for many people, it will no longer make sense to itemize, simplifying their tax preparation significantly. However, it also means many deductions that people previously took will no longer apply—including charitable contributions, mortgage loan interest, and medical expenses. To determine if it makes sense to itemize or take the standard deduction, calculate your taxes both ways and choose the method that saves you the most money.

3. State and Local Tax Deduction Capped at $10,000

Under the new tax law, the deduction for all state and local taxes combined is limited to $10,000, including such things as state and local income tax, sales tax, real estate taxes, and property taxes. Since taxpayers in high-tax states will lose a large chunk of their deductions, it may no longer make sense for them to itemize.

4. Deduction on Pass-Through Income

To help small business owners, the new tax law offers individuals an additional 20% deduction on pass-through income. This law affects individuals who work for themselves and claim their business income on their personal tax return (including business owners with employees and one-person operations like a freelance writer or self-employed handyman.) The 20% pass-through deduction is taken on income left after the standard deduction (or itemized deductions) is taken out, giving small business owners a nice additional savings.

5. Mortgage Interest Capped at $750,000

The cost of buying or owning your own home has traditionally been made more affordable due to the deductibility of mortgage interest and real estate taxes. Although real estate taxes are included in the $10,000 limit for all state and local taxes, mortgage interest remains deductible—up to $750,000 (this only matters if you itemize). The new law applies to homes purchased after December 14, 2017, so if you took out your mortgage before then, you're still eligible to receive the full interest deduction.

6. Deductions on Home Equity Loans and Lines of Credit Have Higher Limits

As of 2018, the interest on home equity loans used for anything other than capital improvements on your primary home are no longer deductible. Interest-deductible HELOCs (Home Equity Line of Credit) and second mortgages are available to homeowners provided they (a) use the loan to make "substantial improvements" to their home, and (b) the combined total of their first mortgage balance and their HELOC or second mortgage does not exceed $750,000.

7. Most Miscellaneous Itemized Deductions Have Been Eliminated

The previous tax law allowed miscellaneous itemized deductions as long as they exceeded two percent of your adjusted gross income. For 2018, these itemized deductions have been eliminated. These include things like investment management fees, tax preparation fees, unreimbursed employee expenses, casualty and theft losses, and moving expenses.

8. Other Changes Worth Mentioning

Here's a quick rundown of some other changes that will affect many taxpayers in 2018 and beyond:

- Job-related moving expenses are no longer deductible except for active military members.
- The child tax credit has doubled, from $1,000 to $2,000 per child under the age of 17. Eligibility income limits have been substantially increased from $75,000 to $200,000 (single filers) and from $110,000 to $400,000 (married filing jointly). Even taxpayers with zero tax liability are eligible for a $1,400 credit per child.
- 529 account holders can now use up to $10,000 per year toward tuition for elementary or secondary public, private, or religious school.
- The annual gift exclusion has been increased from $14,000 to $15,000 per person per donor.
- The Alternative Minimum Tax thresholds have been raised to $70,300 for single filers and $109,400 for joint filers, and phase out for taxpayers at $500,000 and $1 million.
- The limit on charitable contributions is now 60% of adjusted gross income, up from 50%.
- The lifetime estate tax exemption doubled from $5.6 million to $11.2 million for individuals and from $11.2 million to $22.4 million for married couples.
- The Affordable Care Act health insurance mandate has been repealed.

While this article provides a general overview of the most significant changes found in the new tax law, it's always prudent to consult your tax professional with particular issues regarding your own situation.