

November 26, 2018

# The Tax Cuts and Jobs Act: 3 Changes You Should Know

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When you file your taxes in 2019, you might notice significant changes due to the Tax Cuts and Jobs Act. It's important to understand how you might benefit from these updated modifications to the tax law.



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Let's look at three of these changes:

## 1. Standard Deductions

As a quick refresher, the standard deduction is the dollar amount that you may subtract from your income before income tax is applied. Many middle-class and low-income taxpayers will reap the benefits of a lower marginal tax rate, the increases of the deductions, and credits.

Beginning in tax year 2018, the standard deduction for married couples filing jointly doubled to \$24,000; for those filing as single, it's \$12,000; and for heads of household, it's \$18,000.

Most taxpayers may do better taking the standard deduction, instead of itemizing, for the 2018 tax year. Using the standard deduction can reduce stress and generally takes less time than itemizing by reducing the collection

of all your papers and receipts. It also could lower your cost to do the long form and have a preparer do your taxes.

Higher earners will still want to use the long form and take advantage of all their full deductions. The higher earner will see a small, 1-2% reduction in their taxes. (See chart below.)

## **2. Credits and Deductions**

Credits and deductions can be used to lower your taxes. Several types exist, and they all work a little differently.

Like the standard deduction, a tax deduction reduces the amount of your income that is subject to tax, which reduces your tax bill. You may claim several credits on your taxes, so let's cover a few of them:

### **Child Tax Credit<sup>2</sup>**

This credit has doubled from \$1,000 to \$2,000 for each child under the age of 17 at the end of the year. Up to \$1,400 of the credit is refundable, which means lower-income families could get bigger refunds.

### **Non-Child Dependent Credit**

Those with children age 17 and older, elderly parents, or other dependents can also get a break of around \$500. This credit is subject to eligibility, based on income thresholds, to offer some relief to households who depended on the personal exemption, which was removed.

One thing to note: The non-child dependent credit expires in 2025.

### **Child and Dependent Care Tax Credit**

This credit helps with child care expenses so that you can work. The credit is \$3,000 for a single qualifying child and \$6,000 for two or more children, which is projected to cover 20-35% of expenses, based on income.

### **Retirement Savings Contribution Credit<sup>3</sup>**

Using this credit allows for contributions to an IRA of up to 50% of your adjusted gross income of \$19,000 for those filing single, \$38,000 for those married filing jointly, and \$28,500 for heads of household. The credit drops to 20%, then 10%, as income increases, falling to zero at \$31,500/single, \$63,000/married filing jointly, and \$47,500/head of household.

### **State and Local Tax (SALT)**

This deduction is usually the main reason for itemizing. The states that have high taxes benefit the most from this deduction, with six high-tax states reaping about 50% of the benefit.

You may deduct up to \$10,000 of state and local property and real estate taxes, and either state and local income or sales taxes. If you're above \$10,000 in SALT taxes, it may be less if you take the standard deduction. If so, you won't itemize but, instead, use the standard deduction. Home equity loans are eliminated, unless that money is used to buy, build, or substantially improve your primary or secondary home.

## **3. Tax Brackets**

Tax brackets have been lowered for most taxpayers, so you may be moving to a lower tax bracket. The second, third, and fourth brackets see a 2-3% savings, which is added to the standard deduction, meaning less tax.

By using the chart below, let's see how the new tax law works for couples.

For example, two single individuals each earned an income of \$100,000 per year. Under the old tax brackets, each of these individuals would fall into the 25% bracket for singles. If they were married, their combined income of \$200,000 would put them into the 28% bracket. Under the new brackets, they would fall into the 24% marginal tax bracket, regardless of whether they are married or single.

<b>2018 Old Law</b>	<b>Married (Joint)</b>	<b>2018 New Law</b>	<b>Married (Joint)</b>
10%	0 to \$18,650	10%	0 to \$19,050
15%	\$18,651 to \$75,900	12%	\$19,051 to \$77,400
25%	\$75,901 to \$153,100	22%	\$77,401 to \$165,000
28%	\$153,101 to \$233,350	24%	\$165,401 to \$315,000
33%	\$233,351 to \$416,700	32%	\$315,001 to \$400,000
35%	\$416,701 to \$470,700	35%	\$400,001 to \$600,000
39.6%	\$470,701 or more	37%	\$600,001 or more

This is the first large overhaul of the tax law in decades, cutting individual taxes for many middle-class households next year.

The corporate tax rate is reduced to the lowest point of 21% from 35-39%. If a corporation elects to use a fiscal year-end instead of a calendar year-end for federal income tax- reporting purposes, which includes January 1, 2018, it will pay federal income tax using a blended tax rate and not the flat 21% tax rate of the new law that would apply to taxable years beginning after December 31, 2017.

Many seniors will see a reduction in their taxes and more of a refund under this law. An important thing to remember is that, once they reach age 70½, they must begin taking their required minimum distributions (RMDs). Taking RMDs affects a retiree's tax because it increases their adjusted gross income (AGI), potentially putting them in a different tax bracket. This change may affect how much their Social Security and capital gains are taxed, as well. The increase in their AGI can also cause itemized deductions to be less beneficial.

Now is an important time to review and seek help on your tax situation. Check the effects of the new law on your retirement, taxes, and income before it changes again.

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Frank has been seen on CNN and has been published in noted periodicals, including Money Magazine. He assists in connecting individuals, businesses, and organizations of all sizes with the right solutions to help guide them to a rewarding future.