What You Need to Know about Tax Reform and Your 2018 Taxes

PICPA
Pennsylvania Institute of Certified Public Accountants

With the passage of the Tax Cuts and Jobs Act (TCJA) of 2017, many taxpayers have become concerned about the law's impact on the filing of their 2018 individual tax returns. This tax guide, prepared by the PICPA's Federal Taxation Committee, highlights some important considerations of the tax reform and the filing of your 2018 individual taxes. It may help make this year's tax filing easier.

Tax Withholding

The first place to review when comparing current tax law and the previous regime is the income tax withholding tables.

Below are links to the 2018 withholding table, an excerpt from IRS's *How to Use the Tax Withholding Table*, and a link to the IRS withholding calculator.

- Table – https://taxmap.irs.gov/taxmap/pubs/p15a-011.htm#en_us_publink1000255776
- Calculator – https://apps.irs.gov/app/withholdingcalculator/
- Table Use – https://taxmap.irs.gov/taxmap/pubs/p15-015.htm#TXMP4585fa0b

For 2019 – The most prominent changes to withholding will occur in 2019. This is due to the upcoming changes to Form W-4. The single most prominent change on the W-4 is that Line 5 (total number of allowances you are claiming) is eliminated. Thus, personal exemptions have been eliminated.

Employees will not be required to complete a new W-4 for 2019, but they should consider completing the new form. Employers will be able to use 2018 and prior W-4s for employees who don't complete a new one. As a result, payroll systems will need to maintain both 2018 and 2019 withholding systems.

Here are some additional W-4 changes:

New Marital Status Box – Head of Household
A third IRS withholding table will be added to correspond with the new Head of Household marital status. The existing two tables are for Single and Married Filing Jointly.

New Line 5 – Additions to Income
This line asks employees to enter estimated nonwage income not subject to withholding (such as interest and dividends). Previously, employees with significant nonwage income had to convert such amounts to equivalent per-payroll additional amounts to withhold. Line 5 amounts will be full-year estimates.

New Line 6 – Itemized and Other Deductions
Line 6 prompts employees to enter estimated subtractions to income based on expected deductions (such as state and local taxes, mortgage interest, and charitable contributions). Previously, employees needed to convert deductions into equivalent withholding allowances. Again, amounts entered will be full-year estimated deduction totals. (Note: the annual deductions for these items may change as a result of tax reform as detailed later on in this brochure.)

New Line 7 – Tax Credits
This line asks employees to enter the full-year amount of any tax credits for which they expect to qualify, such as the child tax credit. The TCJA significantly expanded child and dependent tax credits. Previously, all tax credits were translated by employees into additional withholding allowances. With the 2019 Form W-4, full-year tax credit amounts will be directly entered into payroll systems.

Tax credits should only be entered for the highest paying job in households with multiple incomes. Taxes may be significantly underwithheld for a household if both spouses enter the full-year credit expected, resulting in a large tax amount due at year-end. Conversely, taxes may be significantly overwithheld if neither spouse enters the total tax credit amount, resulting in reduced net paychecks during the year, and a large tax refund at year-end.

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Below are links to a draft of the new 2019 W-4 and the IRS withholding calculator:

- New W-4 (draft version only) – https://www.irs.gov/pub/irs-dft/fw4--dft.pdf
- Calculator: https://apps.irs.gov/app/withholdingcalculator/

Tax Rates

The TCJA made significant changes to the tax rates used for filing taxes. The following charts compare the tax rates for 2018 (used with April 2019 filings) with the 2017 tax rates used on April 2018 returns.

Standard Deduction

The standard deduction amount has been increased to partially compensate for the elimination of the personal exemption and certain itemized deductions.

For the 2018 tax season (i.e., filings in calendar 2019), the standard deduction amount has been increased for all filers. The amounts are as follows:

- Single or Married Filing Separately – $12,000
- Married Filing Jointly or Qualifying Widow(er) – $24,000
- Head of Household – $18,000

The standard deduction change and reduction of itemized deductions is the most important consideration for filing a new Form W-4.

Itemized Deductions

The following changes, including elimination of the itemized deduction limitation (through 2025) if your adjusted gross income is over a certain amount, have been made to itemized deductions that can be claimed on your 2018 Schedule A:

- You can deduct the part of your medical and dental expenses that is more than 7.5 percent of your adjusted gross income (although this reverts back to more than 10 percent starting in 2019).

Single Taxpayers

2018 Tax Rates		2017 Tax Rates	
10%	0 to $9,525	10%	0 to $9,325
12%	$9,525 to $38,700	15%	$9,325 to $37,950
22%	$38,700 to $82,500	25%	$37,950 to $91,900
24%	$82,500 to $157,500	28%	$91,900 to $191,650
32%	$157,500 to $200,000	33%	$191,650 to $416,700
35%	$200,000 to $500,000	35%	$416,700 to $418,400
37%	Over $500,000	39.60%	Over $418,400

Married Filing Jointly & Surviving Spouses

2018 Tax Rates		2017 Tax Rates	
10%	0 to $19,050	10%	0 to $18,650
12%	$19,050 to $77,400	15%	$18,650 to $75,900
22%	$77,400 to $165,000	25%	$75,900 to $153,100
24%	$165,000 to $315,000	28%	$153,100 to $233,350
32%	$315,000 to $400,000	33%	$233,350 to $416,700
35%	$400,000 to $600,000	35%	$416,700 to $470,700
37%	Over $600,000	39.60%	Over $470,700

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- Your deduction of state and local income, sales, and property taxes is limited to a combined total deduction of $10,000 ($5,000 if married filing separately).

- You can no longer deduct job-related expenses or other miscellaneous itemized deductions that were subject to the 2 percent of adjusted gross income floor. You may still deduct certain other items on Schedule A, such as gambling losses (up to your gambling income).

- The deduction for home mortgage interest is limited to interest on up to $750,000 of home acquisition indebtedness. This new limit doesn't apply on grandfathered mortgages existing on Dec. 14, 2017, or if you had a binding contract to close on a home after Dec. 15, 2017, and closed on or before April 1, 2018, in which case the prior limit of loans up to $1 million would apply.

- You can no longer deduct interest on a home equity line of credit indebtedness, which means indebtedness not incurred for the purpose of buying, building, or substantially improving the qualified residence secured by the indebtedness. (If the loan was incurred for home improvement or expansion purposes, it may still qualify under the home mortgage interest deduction rules to the extent of those applicable limits.)

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

Moving expenses no longer deductible – You can no longer deduct your moving expenses unless you are a member of the Armed Forces on active duty.

Child tax credit and additional child tax credit – For 2018, the maximum credit increased to $2,000 per qualifying child. The maximum additional child tax credit increased to $1,400.

Married Filing Separately			
2018 Tax Rates		2017 Tax Rates	
10%	0 to $9,525	10%	0 to $9,325
12%	$9,525 to $38,700	15%	$9,325 to $37,950
22%	$38,700 to $82,500	25%	$37,950 to $76,550
24%	$82,500 to $157,500	28%	$76,550 to $116,675
32%	$157,500 to $200,000	33%	$116,675 to $208,350
35%	$200,000 to $500,000	35%	$208,350 to $235,350
37%	Over $500,000	39.60%	Over $235,350

Head of Household			
2018 Tax Rates		2017 Tax Rates	
10%	0 to $13,600	10%	0 to $13,350
12%	$13,600 to $51,800	15%	$13,350 to $50,800
22%	$51,800 to $82,500	25%	$50,800 to $131,200
24%	$82,500 to $157,500	28%	$131,200 to $212,500
32%	$157,500 to $200,000	33%	$212,500 to $416,700
35%	$200,000 to $500,000	35%	$416,700 to $444,500
37%	Over $500,000	39.60%	Over $444,500

In addition, the income threshold at which the credit begins to phase out is increased to $200,000 ($400,000 if married filing jointly).

Credit for other dependents – A new credit of up to $500 is available for each of your dependents who does not qualify for the child tax credit. In addition, the maximum income threshold at which the credit begins to phase out is increased to $200,000 ($400,000 if married filing jointly).

Social Security number required for child tax credit – Your child must have a Social Security number issued before the due date of your 2018 return (including extensions) to be claimed as a qualifying child for the child tax credit or additional child tax credit. If your dependent child has an individual taxpayer identification number – but not a Social Security number – issued before the due date of your 2018 return (including extensions), you may be able to claim the new credit for other dependents.

Alimony – Alimony will no longer be deductible by the payer or includible in the gross income of the former spouse for agreements executed or modified after Dec. 31, 2018.

The PICPA worked carefully to prepare this guide, but it cannot be used as official tax advice that would protect taxpayers from penalty due to the complexity of tax law, individual taxpayer facts and circumstances, and changes enacted after this writing. We encourage taxpayers to seek advice from our member CPAs about the items contained in this resource, as well as other tax issues and planning opportunities. See separate brochure for business tax considerations.

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