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● *think BOLDLY* ● *plan CAREFULLY* ● *execute PRECISELY* ●

TCJA summary of key tax changes

Changes to the Individual Income Tax

- Lowers most individual income tax rates, including the top marginal rate from 39.6 percent to 37 percent. Retains the current seven-bracket structure, but bracket widths are modified. (Table 1 and Table 2)

Single Filer

Current Law		**Tax Cuts and Jobs Act**	
10%	$0-$9,525	10%	$0-$9,525
15%	$9,525-$38,700	12%	$9,525-$38,700
25%	$38,700-$93,700	22%	$38,700-$82,500
28%	$93,700-$195,450	24%	$82,500-$157,500
33%	$195,450-$424,950	32%	$157,500-$200,000
35%	$424,950-$426,700	35%	$200,000-$500,000
39.6%	$426,700+	37%	$500,000+

Table 1. Tax Brackets for Ordinary Income Under Current Law and the Tax Cuts and Jobs Act (2018 Tax Year)

Married Filing Jointly

Note: The Head of Household filing status is retained, with a separate bracket schedule.

Current Law		**Tax Cuts and Jobs Act**	
10%	$0-$19,050	10%	$0-$19,050
15%	$19,050-$77,400	12%	$19,050-$77,400
25%	$77,400-$156,150	22%	$77,400-$165,000
28%	$156,150-$237,950	24%	$165,000-$315,000
33%	$237,950-$424,950	32%	$315,000-$400,000
35%	$424,950-$480,050	35%	$400,000-$600,000
39.60%	$480,050+	37%	$600,000+

Table 2. Tax Brackets for Ordinary Income Under Current Law and the Tax Cuts and Jobs Act (2018 Tax Year)

Changes to the Individual Income Tax (continued)

- Indexes tax brackets and other provisions by the chained CPI measure of inflation.
- Increases the standard deduction to $12,000 for single filers, $18,000 for heads of household, and $24,000 for joint filers in 2018 (compared to $6,500, $9,550, and $13,000 respectively under current law).
- Eliminates the personal exemption.
- Retains the charitable contribution deduction, and limits the mortgage interest deduction to the first $750,000 in principal value. Limits the state and local tax deduction to a combined $10,000 for income, sales, and property taxes. Taxes paid or accrued in carrying on a trade or business are not limited.
- Limits or eliminates a number of other deductions under “tier two” employee business expenses.
- Expands the child tax credit from $1,000 to $2,000, while increasing the phaseout from $110,000 in current law to $400,000 married couples. The first $1,400 would be refundable.
- Effectively repeals the individual mandate penalty, by lowering the penalty amount to $0, effective January 1, 2019.
- Raises the exemption on the alternative minimum tax from $86,200 to $109,400 for married filers, and increases the phaseout threshold to $1 million.
- The majority of individual income tax changes would be temporary, expiring on December 31, 2025. Several, such as the adoption of chained CPI and functional repeal of the individual mandate, would be permanent.

Changes to Business Taxes

- Lowers the corporate income tax rate permanently to 21 percent, starting in 2018.
- Establishes a 20 percent deduction of qualified business income from certain pass-through businesses. Specific service industries, such as health, law, and professional services, are excluded. However, joint filers with income below $315,000 and other filers with income below $157,500 can claim the deduction fully on income from service industries. This provision would expire December 31, 2025.
- Allows full and immediate expensing of short-lived capital investments for five years. Increases the section 179 expensing cap from $500,000 to $1 million.
- Limits the deductibility of net interest expense to 30 percent of earnings before interest, taxes, depreciation, and amortization (EBITDA) for four years, and 30 percent of earnings before interest and taxes (EBIT) thereafter.
- Eliminates net operating loss carrybacks and limits carryforwards to 80 percent of taxable income.
- Eliminates the domestic production activities deduction (section 199) and modifies other provisions, such as the orphan drug credit and the rehabilitation credit.
- Enacts deemed repatriation of currently deferred foreign profits, at a rate of 15.5 percent for cash and cash-equivalent profits and 8 percent for reinvested foreign earnings.
- Moves to a territorial system with base erosion rules.
- Eliminates the corporate alternative minimum tax.

Other Changes and Notes

- Doubles the estate tax exemption from $5.6 million to $11.2 million, which expires on December 31, 2025. The exemption will increase with inflation.

- Business entertainment expense deductions eliminated; business meals still allowed (50% deductible).

- Pass-through business deduction includes schedule C self-emloyment, schedule E rental real estate, and schedule F farming activities.

- Pass-through business deduction limits based on wages apply; PEO costs may be allowed as wages.

Impact on the Economy

According to the Tax Foundation's Taxes and Growth Model, the Tax Cuts and Jobs Act would increase the long-run size of the U.S. economy by 1.7 percent (Table 3). The larger economy would result in 1.5 percent higher wages and a 4.8 percent larger capital stock. The plan would also result in 339,000 additional full-time equivalent jobs.

The larger economy and higher wages are due chiefly to the significantly lower cost of capital under the proposal, which reduces the corporate income tax rate and accelerates expensing of capital investment for short-lived assets.