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The impact of the new tax law on individuals and families

The Tax Cuts and Jobs Act went into effect on January 1, 2018. Since then, there has been significant discussion about these tax changes, and how they will affect individuals and families. Below, we revisit some of the key aspects of the new tax law.

Federal income tax brackets

While the tax rates changed, there still are seven federal income tax brackets. As Federal income taxes are calculated on a marginal basis (where a different rate is applied to each bracket of income), many families may have a lower tax liability. For others, changes in the tax law may increase their tax liability. In addition to changes in tax rates, many changes were made to both the standard deduction and to eligible itemized deductions.

Standard deduction and personal exemptions

When calculating their income taxes, individuals and families can use the "standard deduction" (a flat dollar amount available to all taxpayers) or they can "itemize" their deductions (where specific expenses are deducted up to certain limits). The new tax law nearly doubles the standard deduction to $12,000 for single filers, and $24,000 for filers who are married and file jointly. In addition, all personal exemptions, including those for dependents, have been eliminated.

These changes to the standard deduction will likely result in fewer people itemizing their deductions and more individuals and families using the standard deduction. Those taxpayers will no longer receive a direct tax benefit from many of the itemized deductions they have historically used, such as charitable donations, local property taxes, and home mortgage interest.

Itemized deductions

- Deduction of interest paid on a new mortgage is limited to $750,000 of debt, down from $1,000,000. No deduction is allowed for interest paid on home equity debt if obtained for debt consolidation.
- The deduction for state and local taxes is limited to $10,000 per year. This includes property taxes, state income taxes, and sales taxes.

Child tax credit

The child tax credit increased from $1,000 to $2,000.

Alimony

Alimony is no longer deductible for the payor and is no longer taxable income for the recipient.

W-4 tax withholding

Given these tax law changes, you may want to review your W-4 so that you may avoid unanticipated tax obligations . You should especially consider reviewing your W-4 if you are someone who previously itemized their deductions or if you prefer a smaller tax refund – these changes will likely affect you the most. (A quick reminder on W-4 forms: the higher the number of allowances you claim on your W-4, the lower your tax withholding will be throughout the year, and the bigger paycheck you can expect).

Next steps

We understand that many of our clients’ financial plans are closely integrated with their tax planning. Based on the significant changes that went into effect this year, now might be a good time to meet with your wealth advisor and your tax professional, so that we can all work together to discuss how these tax changes may impact your financial and tax planning strategy going forward.