How the Tax Reforms Will Take Effect

Some of the impact of the Tax Cuts & Jobs Act will be felt later than January 1.

President Donald Trump signed the Tax Cuts & Jobs Act into law on December 22, and on January 1, some key details of the Internal Revenue Code will abruptly change.[1]

There will be night-and-day change, both figuratively and literally. On January 1, the federal estate tax exemption will double; the standard federal income tax deduction will nearly double. The top corporate income tax rate will fall from 35 percent to 21 percent. Most business owners who make pass-through income will be able to deduct the first 20 percent of that income tax-free.[2,3]

Workers may not see changes to their paychecks until February. This is because the Internal Revenue Service needs to release new withholding tables. Those tables are slated to appear in January.[2]

Two provisions of the TCJA may also apply retroactively for some taxpayers. A larger federal tax deduction for out-of-pocket medical expenses is allowed not just for 2018, but also for 2017. Taxpayers who itemize may write off qualifying medical expenses exceeding 7.5 percent of income in 2017, instead of 10 percent of income. Businesses that bought new capital equipment after September 27, 2017 will be permitted to fully and immediately expense those purchases for the 2017 tax year.[2]

Two other changes will not happen until January 1, 2019. On that day, the individual health insurance mandate is scheduled to be repealed; no taxpayer will face a penalty for not having health coverage. Another delayed change pertains to divorcing couples. Taxpayers who divorce in 2019 and succeeding years will not be able to deduct alimony payments.[2]

Many of the changes authorized by the passage of the TCJA could expire after 2025. Congress may or may not renew them at the end of that year. The reduction of the corporate tax rate to 21 percent is a notable exception — that change is permanent.[2,3]

This is a good time to plan your 2018 tax strategy. Talk to your CPA or tax preparer soon, to see how you might take advantage of the adjustments to federal tax law.

Contact us for help in financial planning.

Citations.

1 - cnn.com/2017/12/22/politics/trump-sign-tax-bill-mar-a-lago/index.html [12/22/17]
2 - nytimes.com/interactive/2017/12/21/us/politics/will-tax-plan-affect-my-2017-taxes.html [12/21/17]
3 - cbsnews.com/news/gop-tax-bill-how-the-new-tax-plan-will-affect-you/ [12/17/17]