WHOLE NEW TAX CODE
BY MATT BELL

At the end of 2017, President Trump signed into law the most comprehensive change to U.S. tax law in more than 30 years. While it should mean a lower tax bill for most taxpayers, exactly how the new rules will affect you depends on your income, family size, where you live, whether you own a home, and more.

What follows is a summary of the changes most likely to impact the greatest number of people. Unless otherwise noted, they are in effect beginning with the 2018 tax year and will expire after 2025, unless extended by Congress. As you'll see, a couple of the changes already have created confusion and will require clarification from the IRS.

TAX BRACKETS
There are still seven tax brackets, but with lower tax rates in five of the seven (the highest tax rate is now 37% - down from 39.6%). In addition, the income levels the rates apply to have been increased. Net effect? Most people will have more of their "taxable income" taxed at a lower rate.

For trusts and estates, the number of brackets has been reduced from five to four, and the top tax rate has come down from 39.6% to 37%.

PERSONAL EXEMPTIONS
Exemptions ($4,050 per person in 2017) have been eliminated. Especially for larger families, the negative impact of this may be offset by significant increases in the standard deduction and child tax credit.

STANDARD DEDUCTIONS
The standard deductions have almost doubled – from $6,350 to $12,000 for singles, and $12,700 to $24,000 for couples. Plus, married people age 65 or older and blind people can deduct an additional $1,300 per person, singles $1,600 more. This should greatly reduce the number of taxpayers who itemize their deductions.

Some charitable organizations are concerned that increasing the standard deduction will remove a key donor incentive, i.e. a tax deduction for a donation. Our hope is that the impact on Christian ministries will be minimal. Biblical teaching about generosity is not *Give-to-get* (a tax refund). It is: *Give as an expression of worship and gratitude*.

CHILD TAX CREDIT
The previous child tax credit of $1,000 per qualifying child under age 17 has doubled to $2,000. In addition, the income levels at which the credit begins to phase out have increased from $75,000 to $200,000 for singles and from $110,000 to $400,000 for couples.

Also, whereas this credit used to be "non-refundable," it is now "refundable" up to $1,400 per qualifying child. That means if the amount of the credit exceeds your tax liability, you may receive a check from Uncle Sam. There are limitations, though. For example, the refundable portion is equal to 15% of your earned income above $2,500, up to the max of $1,400 per child. (If you have three or more qualifying children, there's an alternative formula.)

There's also a new $500 credit for any other dependents you support, such as an aging parent or a child older than 17. This credit, too, phases out at the new higher income levels.

DIVIDENDS AND CAPITAL GAINS
Short-term capital gains (gains on investments held less than a year) and non-qualified dividends will continue to be taxed as ordinary income. Long-term capital gains and qualified dividends will continue to be subject to one of three tax rates based on income. However, the income ranges have been adjusted upward.

Homeowners can still sell their primary residence and not owe capital gains taxes on gains of up to $250,000 for singles or $500,000 for couples, as long as they lived in the house at least two years.

INVESTMENT INCOME SURCHARGE
A 3.8% surcharge on net investment income enacted under the Obama administration is still in effect, impacting single taxpayers with modified adjusted gross income (MAGI) over $200,000, or $250,000 for married taxpayers.

ITEMIZED DEDUCTIONS
Below are some of the changes that affect those who itemize deductions on Schedule A.

MEDICAL AND DENTAL EXPENSES
More people should now qualify for this deduction as such expenses may now be deducted to the extent that they exceed 7.5% of your adjusted gross income (AGI) – down from 10%. (This change also applies to your 2017 taxes, but it expires at the end of 2018.)

TAXES YOU PAID
The deduction for a combination of real-estate taxes plus state and local sales or income taxes is now capped at $10,000. This will be especially painful for itemizers in the states with high state income taxes and/or high real-estate taxes.

INTEREST YOU PAID
Home mortgage interest is deductible on mortgages up to $750,000 – down from $1,000,000. This applies to mortgages on primary and secondary residences with mortgages taken out after December 15, 2017.

The deductibility of interest on home-equity loans and lines of credit has created much confusion, with many news organizations apparently misreporting that such interest is no longer deductible. But financial advisor Michael Kitces points out that the bill draws a distinction between *acquisition indebtedness* and *home equity indebtedness*. According to tax-code definitions, *acquisition indebtedness* includes debt secured by a qualified residence that is incurred in “acquiring, constructing, or *substantially improving*” the residence. Home equity indebtedness is a loan secured by a qualified residence that is used for any other purpose. That would seem to indicate that interest on a home-equity loan or line of credit *used for home improvement* would still be deductible. Further IRS guidance on this likely will be needed.

Regardless, it’s clear that the interest on home equity loans used for any purpose other than home improvement is no longer deductible, which may be especially painful for families who have been using – or planned to use – a home equity loan to help pay for college.

GIFTS TO CHARITY
You can now deduct contributions to qualified charities up to 60% of you AGI – an increase from 50% previously.

CASUALTY AND THEFT LOSSES
The big change here is that personal casualty/theft losses may now be deducted only if related to a declared national disaster, such as Hurricane Harvey. Previously, such losses could be deducted if they exceeded $100 per incident and to the extent they were not covered by insurance and exceeded 10% of AGI.

MISCELLANEOUS DEDUCTIONS
These have been eliminated, including unreimbursed employee expenses, tax-preparation fees, investment-advisory fees, and more. One bright spot for higher-income earners is that the phase-out of itemized deductions (the Pease limitation) has been repealed.

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SAVING FOR COLLEGE
The most significant change here is that tax-free distributions are now allowed from 529 college savings plan accounts for the payment of qualified *private elementary and secondary education* costs – up to $10,000 per student per year.

However, you may want to be cautious about moving forward too quickly with this one, especially if you live in one of the 30-plus states that allow state income-tax deductions or credits for contributions to 529 plans. A number of state treasurers have expressed concern that parents of private-school students will suddenly start funneling their tuition money through 529 plans to get the state tax break, leading to an unanticipated drop in state tax revenue. In some cases, state laws may need to be revised before tax-free withdrawals will be allowed to be used for K-12 expenses. So before making any changes to your 529 plan contributions or withdrawals, it's probably wise to check with your state's 529-plan administrator.

PAYING FOR COLLEGE
The tax deduction for student loan interest (up to $2,500 per year) was retained, tuition waivers for grad students remain tax-free, and two tax credits – the Lifetime Learning and American Opportunity credits – remain.

KIDDIE TAX
If you have children who receive *unearned* income, it will now be taxed according to the trust and estate-tax brackets instead of your marginal rate. Whether that's good news or bad depends on your tax bracket and how much unearned income your child receives.

ROTH CONVERSIONS
Beginning this year, if you want to convert money from a traditional IRA to a Roth, you better be sure. The new tax law no longer allows such money to be recharacterized as traditional IRA money. Typically, recharacterizations have been used to undo conversions by those who ultimately decided the tax burden was too great. You can still get a do-over for conversions done in 2017, all the way until October 15, 2018, but not for conversions done in 2018 or beyond.

ALTERNATIVE MINIMUM TAX
While the AMT hasn't disappeared, it now hits far fewer people. You'll still have to calculate your AMT income (AMTI), but the exemption amount you can then subtract from that figure has risen to $70,300 for singles and $109,400 for married couples filing jointly – up from $54,300 and $84,500 respectively. In addition, phase-out of the exemption has risen substantially. Previously, singles would lose $.25 per dollar of exemption for every dollar of AMTI above $120,700 or $160,900 for couples. Those thresholds have now risen to $500,000 and $1 million respectively.

"PASS-THROUGH" BUSINESSES
If you own a business structured as a sole proprietorship, S corporation, partnership, or LLC, you may be able to deduct up to 20% of your business income. However, there are important restrictions that could eliminate or reduce the deductible amount.

ESTATE TAX
Few people have been subject to this tax in recent years, and now even fewer will be. The new law doubles the estate and gift-tax exemption to $11.2 million for individuals or $22.4 million for couples. The annual gift tax exclusion has also increased – from $14,000 to $15,000 per person.

HEALTH INSURANCE MANDATE
The Obama administration's Affordable Care Act requirement that individuals buy health insurance or be subject to a fine has been repealed, effective beginning in 2019.