# 2018 Tax Law Changes: What Do They Mean to Me?

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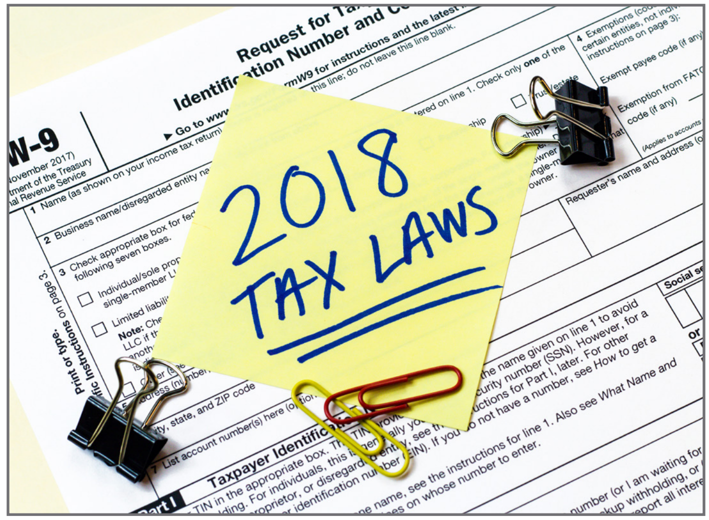


Taxes are painful. Taxes are constantly changing. Taxes will never ever go away. Wow, what reassuring and uplifting sentiments! Unfortunately, these are undeniable truths. The recent changes under the Tax Cuts and Jobs Act will shake things up more than usual. The big question is: For better or worse? Now that the 2017 tax season is coming to a close (for most), I'd recommend reaching out to your accountant and/or financial planner to get a better handle on how your family will be impacted by these changes.

Although everyone's taxes will be affected differently, I wanted to outline a few of the meaningful, big-picture adjustments in this article.

## LOWER MARGINAL TAX RATES

This is something you've already noticed if you receive W-2 wages. Around February of this year, you likely received a bump in your net take-home pay. This is due to the fact that federal tax brackets have been condensed for 2018. To give you an idea—in 2017, a married couple incurred a tax rate above 25% once taxable income reached $153,100. In 2018, you're not taxed beyond 25% until income exceeds $315,000.

## PERSONAL EXEMPTIONS & ITEMIZED DEDUCTIONS

Perhaps the most-discussed aspect of the new tax code has been the elimination of personal exemptions and the reduction in itemized deductions.

- State and local taxes, along with real estate taxes, will now share a maximum limit of $10,000.
- Interest on home equity loans and home equity lines of credit will only be deductible if it's deemed to be acquisition debt. Ultimately, that would be financing used to buy, construct, or improve your home.

## CHILD TAX CREDIT

For many young families, this will be the difference maker. Before 2018, a child tax credit of $1,000 was available for children under age 17. That has now doubled to $2,000. Just as importantly, though, is that families with modified adjusted gross income (MAGI) up to $400,000 can now fully claim the credit. In the past, they would have been completely phased out at only $130,000 of MAGI.

In a similar vein, there's also a "family credit" of $500 for each qualified dependent. This would include kids in college, an aging parent living with you, or even an adult child still on the payroll (see "Failure to Launch").

## PASS-THROUGH BUSINESS INCOME DEDUCTION

The gist of this new regulation is that business income passed through to a personal tax return may qualify for a 20% deduction. An example (one of many) would include a self-employed individual who receives 1099 income for consulting or contract work. Note that there are a lot of nuances to this rule that still need to be ironed out. Before jumping for joy, reach out to your accountant to see if it's something that you can actually benefit from.

## SO HOW WILL THIS IMPACT ME?

As with all tax changes, some will benefit and some won't. What I've personally seen with many of our clients, however, is that most families will realize a tax savings. Let's take a look at a hypothetical scenario: A married couple with a 3-year-old and a 6-year-old. They live in Mt. Lebanon and earn a combined income of $200,000. They pay $12,000 in annual real estate taxes and have current mortgage interest of $11,000. They also contribute $5,000 to charity each year. In this example, their total deductions were slashed from $53,000 to $26,000. As a result, their federal taxable income increased from $147,000 to $174,000. ***Ouch.***

On a positive note, however, they picked up an additional $4,000 of child tax credits. In the past, their earnings precluded them from taking advantage of this credit. That $4,000 translates into a dollar-for-dollar reduction on their taxes due. All things equal, this couple will save roughly $4,500 in taxes from 2017 to 2018. A reduction of almost 15% of their tax bill!

## BE PROACTIVE

Don't wait until you file your 2018 taxes a year from now to begin planning for these changes. Reach out to your accountant and a CERTIFIED FINANCIAL PLANNER™ this spring to run a projection for your family. You may find yourself in a favorable position to increase savings or pay down debt faster, without impacting your regular cash flow. This will undoubtedly benefit your financial well-being in both the short and long term.