What You Need to Know & Do With Tax Cuts and Jobs Act – Tax Calculator

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The Tax Cuts and Jobs Act is Way Overdue.

Just in time for Christmas!

Lower income tax rates for people and businesses! A great start toward making government a little bit smaller and letting most people keep more of what they make.

Families with incomes of roughly $100,000 or less. In low tax states seem to be in line for the biggest percentage tax savings. The simplification of individual tax returns is long overdue. This is so exciting for a guy like me to be able to help my clients figure out how to keep as much of their hard-earned money as possible.

The biggest thing to do right now is to figure out if you are likely to be itemizing your deductions in 2018.

For most people the answer is “NO”.
If your itemized deductions are less than the new 2018 standard deduction. $12,000 for single or $24,000 for married filing jointly. Then you will be better off in 2018 to take the standard deduction. If that’s new for you than make sure to consider moving your deductible payments for 2018 to 2017 by making those payments before 12/29/2017.

So for millions of people who used to itemize. They will have a much simpler tax return due to this tax reform law. The main items that make up your itemized deductions include:

- State & local income tax.
- Property tax.
- Mortgage interest.
- Charitable contributions.

In 2018 and beyond your combined state & local tax and property tax itemized deduction is limited to a TOTAL of $10,000. For people who live in a state like Illinois with very high property taxes and a state income tax that's a huge blow. Probably another reason to move to a low tax state.

How do you know if you will keep itemizing?

How to calculate your 2018 standard deduction on the back of the napkin:

Property Tax + State & Local tax (Maximum of $10,000)

+ Mortgage interest.

+ Charitable contributions.

=   If that totals less than your standard deduction you would simply use the standard deduction. So SIMPLE!

On the surface that looks bad for many of us. Because we are losing our larger itemized deduction amount. Therefore, if our income was identical you would assume you owe more in income tax. The reason that will not be the case for many people is that the tax rates have been lowered across the bar.

Before looking at the rates and brackets.

The point of doing this calculation right now is that you should consider bunching your deductions in 2017 if you won't be able to use them in 2018!

CHECK OUT THIS 2018.

INCOME TAX CALCULATOR .

FOR AN ESTIMATE OF YOUR FUTURE INCOME TAX BURDEN

If, after doing the calculation above you figure that you will no longer be itemizing your deductions.

Than you may want to find a way to;

Before 12/29/2017 to get itemized deduction for 2017 tax year

Pay your 1/1/2018 mortgage payment (home interest deduction)

Prepay your 2018 property taxes

Charitable contributions

Your 4th quarter estimated state income tax payment – If you pay state quarterly estimated tax payments

Caveat: If you are subject to the Alternative Minimum Tax (AMT), prepaying your property and state tax may not help you as it is added back to do that calculation.

Summary of Tax Cuts & Jobs Act

Other features of H.R. 1, Tax Cuts and Jobs Act:

- There will be a change in most of the seven tax brackets in 2018. The personal tax brackets will be as follows: 10%, 12%, 22%, 24%, 32%, 35% and 37%.
- The personal exemption has been eliminated. As part of the tradeoff for the much larger standard deduction
- Small business owners who are setup as S-Corporations or Limited Liability companies and receive pass-through income via a K-1 or form 1065. Will be allowed to deduct 20% of their income prior to applying the personal income tax rates up to certain qualifying income limits.
- The corporate rate will be cut from 35% to 21%.
- It Expands the medical expense deduction for two years. For filers meeting that threshold from 10% AGI to 7.5% AGI.
- Mortgage interest will be deductible for mortgages up to $750,000.
- The Alternative Minimum Tax is still in place. But the ceiling was raised dramatically so far fewer people will be subject to this tax.
- 529 plan distributions can now be used tax-free for private elementary and secondary school expenses. For up to $10,000 in distributions *per student* each year, and includes both public, private and religious schools.
- The child tax credit will increase from $1,000 to $2,000 per child under 17 years of age with $1,400 of the $2,000 potentially refundable. *This may be the single biggest benefit to lower-income families. Many will actually receive a tax refund despite paying zero income tax.*
- Filers with dependents who do not qualify for the child tax credit will be able to claim a $500 credit for each dependent.
- The bill also repeals the Obamacare mandate/tax penalty to purchase health insurance.

Some general observations about the bill/law:

Business tax relief was way overdue. Reducing our corporate tax rates to be globally competitive and encourage our businesses to stay in the U.S. and not moving overseas and possible attracting foreign companies to move to the U.S. Both are good for U.S job market.

It’s great that tax returns will be much simpler for the masses that will no longer itemize.

The exception is single people living in high property tax states. Especially if they pay mortgage interest or make sizable charitable contributions. In this case, they are likely to be better off itemizing their deductions. I wish that there were three or fewer tax brackets, one bracket for all would be god for me after a larger standard deduction.

It makes more sense now to pay off your mortgage more quickly for those that will no longer be deducting their mortgage interest.

I wish that charitable deductions were given their own deduction line item. So to continue to encourage contributions. Hopefully, people will continue to be generous with their larger take-home paychecks.

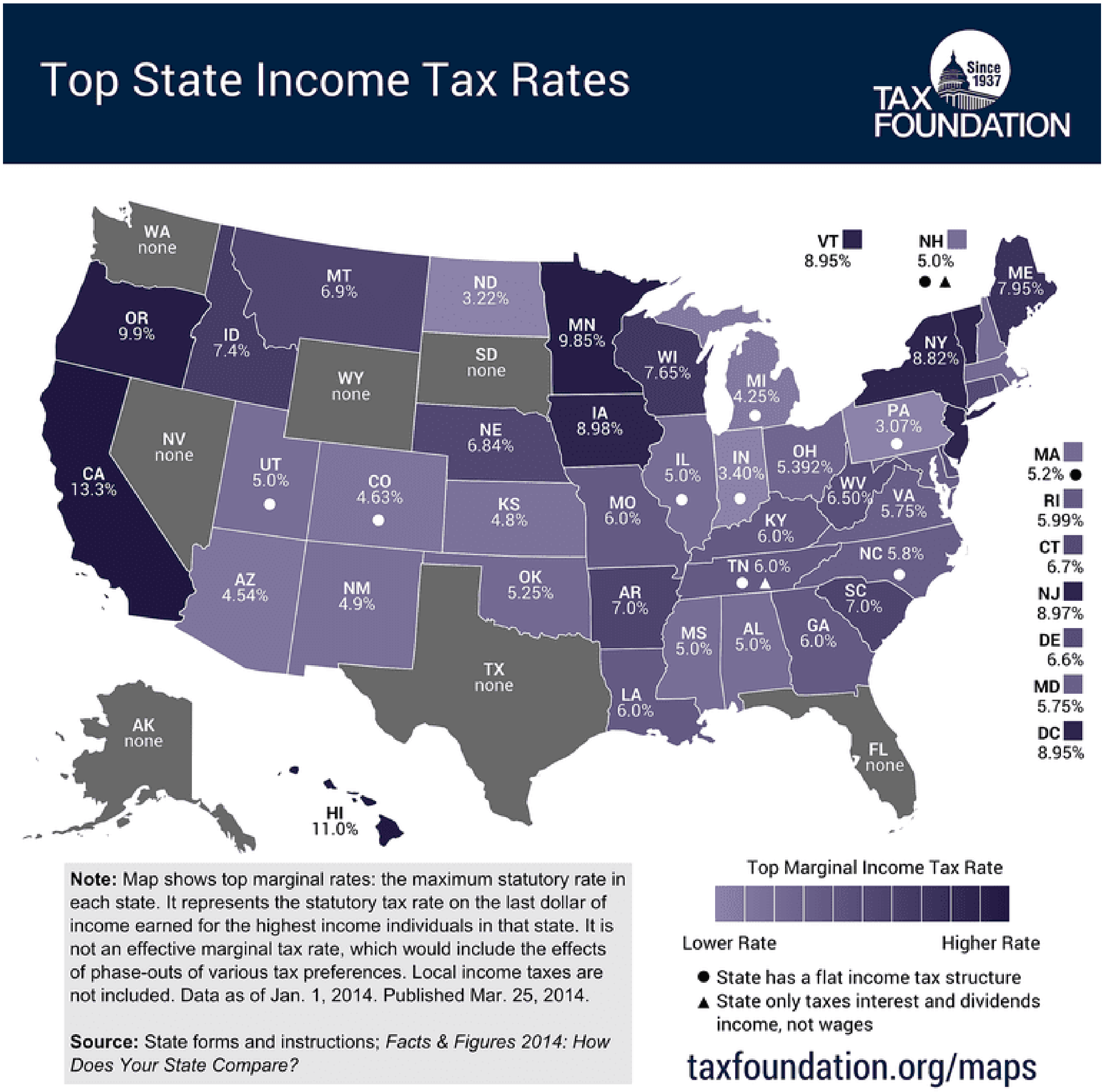
I do believe the economy will continue to flourish under this President. That will lead to much more tax revenue for our government. Ideally, as a guy that studies economics and follows the work of Economist Milton Friedman, I would prefer the federal government cut their spending. And that is If the politicians are truly concerned about not receiving enough of the people’s earned income to pay for their programs.

For business owners.

There is a large tax rate reduction to 21% down from 35%. The lower tax rate should help drive a business boom. Owners will have to decide if they are better off being a C Corporation, S Corporation, LLC or Partnership and in the tax consequences that have now changed. This is great for CPA’s as they will have plenty of work analyzing these options.

Lastly, this will encourage people to move to low tax states, most of which are financially sound.

I know that the low tax states are on my radar for my financially independent days. Take a look at this map if you want to see how your state stacks up compared to others.



Always consult with your tax adviser for specific strategies.

I will continue to blog about this and more of the laws and strategies become more clear going forward.

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