Your Guide to the 2019/2020 Tax Changes – Individual Tax

Here's how the U.S. tax system is changing for 2019 and beyond.

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Sources: Journal of Accountancy, Michael Frenkel, IRS, "Tax Cuts and Job Act".

Now that the Tax reform bill was recently signed into law, it makes major changes to the U.S. tax code for both individuals and corporations. In fact, the bill represents the most significant tax changes in the United States in more than 30 years.

With that in mind, here's a guide to all of the changes that will go into effect -- the new tax brackets, modified deductions and credits, corporate tax changes, and more.

IMAGE SOURCE: GETTY IMAGES.

The 2019 tax brackets

Marginal Tax Rate	Single	Married Filing Jointly	Head of Household	Married Filing Separately
10%	$0-$9,700	$0-$19,400	$0-$13,850	$0-$9,700
12%	$9,700-$39,475	$19,050-$78,950	$13,850-$52,850	$9,700-$39,475
22%	$39,475-$84,200	$78,950-$168,400	$52,850-$84,200	$39,475-$84,200
24%	$84,200-$160,725	$168,400-$321,450	$84,200-$160,700	$84,200-$160,725
32%	$160,725-$204,100	$321,450 - 408,200	$160,700-$204,100	$160,725-$204,100
35%	$204,100-$510,300	$408,200-$612,350	$204,100-$510,300	$204,100-$306,175
37%	Over $510,300	Over $612,350	Over $510,300	Over $306,175

DATA SOURCE: IRS.

The marriage penalty is (mostly) gone

One thing to notice from these brackets is that the so-called marriage penalty is almost absent.

In fact, the married filing jointly income thresholds are exactly double the single thresholds for all but the two highest tax brackets in the new tax law. In other words, the marriage penalty has been effectively eliminated for everyone except married couples earning more than $400,000.

Standard deduction and personal exemption

While it's being sold as a tax cut, the higher standard deduction really falls more under the category of a simplification.

Standard Deduction	Single	Head of Household	Over 65 add:
10%	$12,200	$18,350	$1,300

Capital gains taxes

The general structure of the capital gains tax system, which applies to things like stock sales and sales of other appreciated assets, isn't changing. However, there are still a few important points to know.

For starters, short-term capital gains are still taxed as ordinary income. Since the tax brackets applied to ordinary income have changed significantly, as you can see from the charts above, your short-term gains are likely taxed at a different rate than they formerly were.

Also, under the new tax law, the three capital gains income thresholds don't match up perfectly with the tax brackets. Under previous tax law, a 0% long-term capital gains tax rate applied to individuals in the two lowest marginal tax brackets, a 15% rate applied to the next four, and a 20% capital gains tax rate applied to the top tax bracket.

Instead of this type of structure, the long-term capital gains tax rate income thresholds are similar to where they would have been under the old tax law. For 2019, they are applied to maximum taxable income levels as follows:

Long-Term Capital Gains Rate	Single Taxpayers	Married Filing Jointly	Head of Household	Married Filing Separately
0%	Up to $39,475	Up to $78,950	Up to $52,850	Up to $39,475
15%	$39,475-$510,300	$78,750-$612,350	$52,750-$510,300	$39,475-$306,175
20%	Over $510,300	Over $612,350	Over $510,300	Over $306,175

DATA SOURCE: TAX CUTS AND JOBS ACT.

Finally, the 3.8% net investment income tax that applied to high earners remains the same and with the exact same income thresholds. If Congress is successful in repealing the Affordable Care Act, this could potentially go away, but it remains for the time being.

Tax breaks for parents

Most eligible families will benefit with the expanded Child Tax Credit, which is available for qualified children under age 17. Specifically, the bill doubles the credit from $1,000 to $2,000, and also increases the amount of the credit that is refundable to $1,400.

In addition, the phaseout threshold for the credit is dramatically increasing.

Tax Filing Status	New Phaseout Threshold
Married Filing Jointly	$400,000
Individuals	$200,000

DATA SOURCE: TAX CUTS AND JOBS ACT.

If your children are 17 or older or you take care of elderly relatives, you can claim a nonrefundable $500 credit, subject to the same income thresholds.

Furthermore, the Child and Dependent Care Credit, which allows parents to deduct qualified child care expenses, has been kept in place. This can be worth as much as $1,050 for one child under 13 or $2,100 for two children. Plus, up to $5,000 of income can still be sheltered in a dependent care flexible spending account on a pre-tax basis to help make child care more affordable. You can't use both of these breaks to cover the same child care costs, but with the annual cost of child care well over $20,000 per year for two children in many areas, it's safe to say that many parents can take advantage of the FSA *and* credit, both of which remain in place.

Education tax breaks

Earlier versions of the tax bill called for reducing or eliminating some education tax breaks, but the final version does not. Specifically, the Lifetime Learning Credit and Student Loan Interest Deduction are still in place, and the exclusion for graduate school tuition waivers survives as well.

One significant change is that the bill expands the available use of funds saved in a 529 college savings plan to include levels of education other than college. In other words, if you have children in private school, or you pay for tutoring for your child in the K-12 grade levels, you can use the money in your account for these expenses.

Mortgage interest, charitable contributions, and medical expenses

These three deductions remain, but there have been slight tweaks made to each.

- First, the mortgage interest deduction can only be taken on mortgage debt of up to $750,000, down from $1 million currently. This only applies to mortgages taken after Dec. 15, 2017, preexisting mortgages are grandfathered in. And the interest on home equity debt can no longer be deducted at all, whereas up to $100,000 in home equity debt could be considered.
- Next, the charitable contribution deduction is almost the same, but with two notable changes. First, taxpayers can deduct donations of as much as 60% of their income, up from a 50% cap. And donations made to a college in exchange for the right to purchase athletic tickets will no longer be deductible.
- Finally, the threshold for the medical expenses deduction has been reduced from 10% of AGI to 7.5% of AGI. In other words, if your adjusted gross income is $50,000, you can now deduct any unreimbursed medical expenses over $3,750, not $5,000 as set by prior tax law. Unlike most other provisions in the bill, this is retroactive to the 2017 tax year.

Real Estate Tax Deduction, Sales Tax and Income Tax Deductions

Perhaps the most controversial aspect of tax reform on the individual side was the limitation placed on the deduction for Real Estate, Sales Tax and State Income Taxes paid.

The final version of the bill keeps the deduction, but limits the total deductible amount to $10,000, including income, sales, and property taxes.

Alimony

For any divorce or separation agreement executed after Jan. 1, 2018, the act provides that alimony and separate maintenance payments are not deductible by the payer spouse. It repealed the provisions that provided that those payments were includible in income by the payee spouse.

Deductions that are disappearing

While many deductions are remaining under the new tax law, there are several that didn't survive, in addition to those already mentioned elsewhere in this guide. Gone for the 2019 tax year are the deductions for:

- Casualty and theft losses (except those attributable to a federally declared disaster)
- Unreimbursed employee expenses
- Tax preparation expenses
- Other miscellaneous deductions previously subject to the 2% AGI cap
- Moving expenses
- Employer-subsidized parking and transportation reimbursement

Itemizing won't be worthwhile anymore for millions of households

While we're on the topic of deductions, many of these may now be a moot point, even to taxpayers who have been using them for years. Even though most major deductions are being kept in place, the higher standard deductions will make itemizing not worthwhile for millions of households.

For example, let's say that a married couple pays $8,000 in mortgage interest, makes $4,000 in charitable contributions, and pays $5,000 in state and local taxes. This adds up to $17,000 in deductions, which when compared with the previous $13,000 standard deduction makes itemizing look like a smart idea.

However, with the new $24,000 standard deduction for married couples, it would no longer be worth it to itemize.

In fact, the Joint Committee on Taxation estimates that 94% of households will claim the standard deduction in 2019, up from about 70% now.

Healthcare Tax penalties will be going away

Republicans were unsuccessful in their efforts to repeal the Affordable Care Act, otherwise known as Obamacare, in 2017. However, the tax reform bill repeals the individual mandate, meaning that people who don't buy health insurance will no longer have to pay a tax penalty.

The pass-through deduction -- does it apply to you?

The new tax code makes a big change to the way pass-through business income is taxed. This includes income earned by sole proprietorships, LLCs, partnerships, and S corporations.

Under the new law, taxpayers with pass-through businesses like these will be able to deduct 20% of their pass-through income. In other words, if you own a small business and it generates $100,000 in profit in 2019, you'll be able to deduct $20,000 of it before the ordinary income tax rates are applied.

There are phaseout income limits that apply to "professional services" business owners such as lawyers, doctors, and consultants, which are set at $157,500 for single filers and $315,000 for pass-through business owners who file a joint return.

Alternative minimum tax (AMT), version 2.0

The alternative minimum tax, or AMT, was implemented to ensure that high-income Americans paid their fair share of taxes, regardless of how many deductions they could claim. Essentially, higher-income households need to calculate their taxes twice -- once under the standard tax system and once under the AMT -- and pay whichever is higher.

The problem is that the AMT exemptions weren't initially indexed for inflation, so over time, the AMT started to apply to more and more people, including the middle class, which it was never intended to affect.

So, the tax reform bill permanently adjusts the AMT exemption amounts for inflation in order to address this problem, and makes them significantly higher initially in 2019. Here's how the AMT exemptions are changing for 2019.

Tax Filing Status	2019 AMT Exemption Amount
Single or Head of Household	$71,700
Married Filing Jointly	$111,700

DATA SOURCE: TAX CUTS AND JOBS ACT.

The new law raises these to $1,020,600 million joint and $510,300 single.

The estate tax exemption

The new tax law exempts even more households in 2019 by doubling the old exemptions. Now, for 2019, individuals get a $11.4 million lifetime exemption and married couples get to exclude $22.8 million. As you can probably imagine, this won't leave too many families paying the estate tax.

2019
Most of the individual tax breaks are temporary

So far, we've discussed the tax changes that will affect individuals. It's also important to point out that most of the changes to individual taxes made by the bill are temporary -- they're set to expire after the 2025 tax year.

With all of the new tax law changes, please call or email us to discuss how these changes affect your personal tax situation. We are here to help you.

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