Special Edition

The News You Need to Know

Left to right: Andrew Woolley, Andrew Barninger, Christopher Miller, Steven Bell and Alan Loss.

The complex legislative process that resulted in passage of the Tax Cuts & Jobs Act has been accompanied by analysis and commentary on its anticipated impact for "average" or "typical" families. This doesn't leave people with much understanding of financial decisions or strategies they should consider going forward. At PWA, we have always asked clients to provide their tax returns as part of our discussions and advice. In the upcoming season, this will be more important than ever and we look forward to providing insight as to the changes that may be expected for 2018.

Congress Passes the Tax Cuts & Jobs Act

What will the near-term impact be?

On December 20, Congress passed the Tax Cuts & Jobs Act, sending the final version of the GOP tax reform bill to President Trump's desk. The legislation alters the Internal Revenue Code to a degree unseen since the 1980s, altering income tax brackets, marginal tax rates, key deductions and exemptions, and the taxation of corporations and pass-through businesses. These are just some of the adjustments.[1]

How many taxpayers could benefit from all this reform in 2018? Earlier this month, the financial website Business Insider ran some numbers to see how single, childless taxpayers earning $25,000, $75,000, and $175,000 a year would fare in the wake of the reforms. It did so for both the House and Senate versions of the bill. The final Tax Cuts & Jobs Act is based on the Senate version, and under the Senate tax plan, Business Insider projected 2018 tax savings of $369 for a childless taxpayer at the $25,000 level, $2,129 at the $75,000 level, and $5,240 at the $175,000 level. The calculations assumed these taxpayers would use the standard deduction in 2018, rather than itemize.[2]

Using the same three income levels, and again assuming use of the enlarged standard deduction, it also projected 2018 federal income tax savings for families of four with children no older than 16. With the Senate bill as the model, the projected 2018 tax savings were $100 for such a family at the $25,000 level, $2,244 at the $75,000 level, and $3,095 at the $175,000 level.[3]

Retirees are also poised to receive significant tax savings. The non-partisan Tax Policy Center projects an average tax savings of $1,000 for older Americans when they file their 2018 federal taxes in 2019. For seniors earning between $33,000-$56,000, the TPC forecasts a federal tax cut of around $300 (roughly 9%). Seniors earning less than $33,000 currently pay little or no federal income tax and would see little or no benefit from the changes.[4]

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One interesting detail in the Tax Cuts & Jobs Act has merited little coverage. That is the application of the chained Consumer Price Index to the Internal Revenue Code – a move which affects inflation calculations. The chained CPI usually reflects less inflation than the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-U), upon which Social Security cost-of-living adjustments are based. This raises the possibility of smaller Social Security COLAs in the future. At this point, Social Security COLAs are not dependent on the movement of the chained CPI.[5]

The passage of the reforms also opens a door to new conversations about Medicare, Medicaid, and Social Security reform, as the national debt is projected to increase by more than $1 trillion with the new legislation.[4,5]

Households may want to make some moves before the new rules take effect. As marginal tax rates are reduced for 2018, some taxpayers might want to defer a little income into next year. The charitably minded may end up contributing more to qualified non-profit organizations in 2017 than in 2018, as the value of itemized deductions will be greater this year with a lower standard deduction. Lastly, those who like to itemize may be compelled to prepay 2018 property taxes before this year ends, given the $10,000 cap on the state and local taxes deduction in 2018.[6]

The Internal Revenue Service has quite a challenge on its hands. Web pages, forms, and publications need to be revised and the agency faces immediate pressure to issue new withholding tables. On December 17, the I.R.S. stated that worker paychecks would not reflect the impact of the Tax Cuts & Jobs Act until February – which means employees may have to make late-2018 withholding adjustments.[7]

Tax season is almost here, so talk with your CPA or preparer soon. A conversation may reveal new opportunities for savings, and help you identify your tax planning priorities for the near future.

Citations.

1 - cbsnews.com/news/second-house-vote-new-tax-bill-2017-12-20-live-updates/ [12/20/17]
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