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Chapter 1: New Legislation — Individual Concerns

Please note. Corrections for all of the chapters are available at **www.TaxSchool.illinois.edu.** For clarification about acronyms used throughout this chapter, see the Acronym Glossary at the end of the Index.

For your convenience, in-text website links are also provided as short URLs. Anywhere you see **uofi.tax/xxx**, the link points to the address immediately following in brackets.

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TAX CUTS AND JOBS ACT: INDIVIDUAL TAXPAYER PROVISIONS[1]

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (TCJA). The TCJA decreases individual income tax rates and lowers the top individual rate from 39.6% to 37%. It temporarily repeals many individual deductions and credits and increases others. Two significant changes include temporarily repealing personal exemptions and temporarily increasing the standard deduction. The TCJA also doubles the exemption amount for the estate and gift tax. Most of the changes to the taxation of individuals are effective for tax years beginning after December 31, 2017 and ending before January 1, 2026.[2]

> **Note.** The time period during which the TCJA is in effect (tax years beginning after December 31, 2017 and ending before January 1, 2026), is referred to as the **TCJA period** in this section. At the time these materials were prepared, legislation was being discussed that would make many of the individual changes permanent.

The following material summarizes the most significant provisions in the TCJA that affect individual taxpayers.

> **Note.** The TCJA also makes significant changes to business income taxation. These changes are explained in the 2018 *University of Illinois Federal Tax Workbook,* Volume B, Chapter 1: New Legislation — Business Concerns.

TAXES AND RETURNS

Income Tax Rates

Old Law. Seven income tax rates apply to individual taxpayers. These rates are 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%.

New Law. The 2018 tax rates are shown in the following tables.

Single Taxpayers

Income Range	Tax Rate
$0 to $9,525	10%
Over $9,525 but not over $38,700	12%
Over $38,700 but not over $82,500	22%
Over $82,500 but not over $157,500	24%
Over $157,500 but not over $200,000	32%
Over $200,000 but not over $500,000	35%
Over $500,000	37%

1. *Joint Explanatory Statement of the Committee of Conference.* [docs.house.gov/billsthisweek/20171218/Joint%20Explanatory%20 Statement.pdf] Accessed on Jan. 4, 2018; *The 2017 Tax Revision (P.L. 115-97): Comparison to 2017 Tax Law.* Sherlock, Molly F. and Marples, Donald J. Feb. 6, 2018. Congressional Research Service. [fas.org/sgp/crs/misc/R45092.pdf] Accessed on Feb. 14, 2018.

2. *Joint Committee on Taxation, Macroeconomic Analysis of the Conference Agreement for H.R. 1, the "Tax Cuts and Jobs Act"* (JCX-69-17), Dec. 22, 2017.

Heads of Household (HoH)

Income Range	Tax Rate
$0 to $13,600	10%
Over $13,600 but not over $51,800	12%
Over $51,800 but not over $82,500	22%
Over $82,500 but not over $157,500	24%
Over $157,500 but not over $200,000	32%
Over $200,000 but not over $500,000	35%
Over $500,000	37%

Married Filing Joint Returns (MFJ) and Surviving Spouses

Income Range	Tax Rate
$0 to $19,050	10%
Over $19,050 but not over $77,400	12%
Over $77,400 but not over $165,000	22%
Over $165,000 but not over $315,000	24%
Over $315,000 but not over $400,000	32%
Over $400,000 but not over $600,000	35%
Over $600,000	37%

Married Filing Separate Returns (MFS)

Income Range	Tax Rate
$0 to $9,525	10%
Over $9,525 but not over $38,700	12%
Over $38,700 but not over $82,500	22%
Over $82,500 but not over $157,500	24%
Over $157,500 but not over $200,000	32%
Over $200,000 but not over $300,000	35%
Over $300,000	37%

Trusts and Estates

Income Range	Tax Rate
$0 to $2,550	10%
Over $2,550 but not over $9,150	24%
Over $9,150 but not over $12,500	35%
Over $12,500	37%

The rate structures shown in these tables do not apply to tax years beginning after the TCJA period.

The 3.8% tax on net investment income remains in effect.

Capital Gains Rates

Old Law. Capital gains and qualified dividends are taxed at the following rates for individual taxpayers.

Taxpayer's Regular Income Tax Rate	Capital Gain Rate
10% or 15%	0%
25%, 28%, 33%, or 35%	15%
39.6%	20%

New Law. The tax rates on net capital gains and qualified dividends are generally unchanged. The breakpoints between the 0% and 15% capital gains rates are based on the same amounts as the breakpoints in effect before passage of the TCJA. These breakpoints have been indexed for inflation. The 0%, 15%, and 20% capital gains rates apply to taxpayers with taxable income in the ranges shown in the following table.[3]

Filing Status	0%	15%	20%
MFJ or surviving spouse	$0–$77,200	$77,201–$479,000	Over $479,000
HoH	0– 51,700	51,701– 452,400	Over 452,400
MFS	0– 38,600	38,601– 239,500	Over 239,500
All other individuals	0– 38,600	38,601– 425,800	Over 425,800
Estates and trusts	0– 2,600	2,601– 12,700	Over 12,700

Alternative Minimum Tax

Old Law. An alternative minimum tax (AMT) is imposed on individual taxpayers in an amount by which the tentative minimum tax exceeds the regular income tax for the tax year. Individuals are allowed to exempt a certain amount of income from AMT. For tax years beginning in 2017, the AMT exemption amounts are:

- $84,500 for MFJ taxpayers and surviving spouses,
- $54,300 for single taxpayers and HoH, and
- $42,250 for MFS taxpayers.

For tax years beginning in 2017, the exemption amounts are phased out by 25% of the amount by which the individual's alternative minimum taxable income (AMTI) exceeds:

- $160,900 for MFJ taxpayers and surviving spouses,
- $120,700 for single taxpayers and HoH, and
- $80,450 for MFS taxpayers.

A taxpayer's AMTI is calculated by increasing the taxpayer's taxable income by certain preference items and is further modified by AMT adjustments. These adjustments include, but are not limited to, the following.

- Miscellaneous itemized deductions are not allowed.
- Itemized deductions for state and local taxes are not allowed.
- The standard deduction and the deduction for personal exemptions are not allowed.

3. IRC §1(j)(5)(B).