



TOTAL - Tax Cuts & Jobs Act (TCJA)

Recent Tax Changes to Money Tree Software's In-Depth Financial Planning

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Deductions, Exemptions, and Credits

Standard Deduction

Standard deduction increased for all filing statuses until TCJA sunset. Standard deduction shows on D7 and D11 in Golden Years. Blind/elderly deduction only increased for inflation.

- Single increased to \$12,000 (was \$6,500)
- Head of Household increased to \$18,000 (was \$9,550)
- Joint increased to \$24,000 (was \$13,000)

Personal Exemptions

Personal and dependent exemptions are eliminated until TCJA sunset. Exemptions show on D10 and D7 in Golden Years.

- Exemptions inputs removed from tax inputs
- Exemptions line item removed from D3 in Golden Years
- Exemptions show as blank and count as zero in calculations for TCJA years

Child Tax Credit

Child tax credit doubled to \$2,000, refundable portion increased to \$1,400, and phase-out level increases until TCJA sunset. Tax credits appear on D6 column 3 in Golden Years.

- Refundable portion = 15% of earned income over \$2,500 to a maximum of \$1,400 per child
- Refundable portion ONLY is now indexed with inflation (but cannot go above the \$2,000 mark)
- Phase-out of credit begins at \$400,000 (joint) or \$200,000 (everybody else)

Itemized Deductions

Charitable Contributions

Allowed amount of charitable contributions deduction has increased until TCJA sunset. Charitable deductions show on D10 column 3 in Golden Years. D10 shows the gross amount, see D7 column 10 for the allowed amount. Charitable deductions entered as Itemized Deductions are treated as cash contributions for tax purposes in the software.

- Now 60% of AGI (was 50% of AGI)

Itemized Deduction Phase-out (Pease)

Phase-out is eliminated until TCJA sunset. Phase-out is shown on D11 in Golden Years.

- Itemized deductions never reduced by phase-out in TCJA years
- Page D11 will no longer show in report at all if “No Sunset” has been selected

Medical Deductions

Allowed medical deduction changes for 2018 and appears on D10 column 2 in Golden Years.

- 10% of AGI changed to 7.5% of AGI for 2018 only

Mortgage Interest Deduction

Size of allowed deductible mortgage lowered until TCJA sunset. This applies to residence debt acquired after TCJA date (12/15/2017) but before TCJA sunset (12/31/2025). Mortgage deduction shows on D10 column 1 in Golden Years. Deductibility of home equity loans can be controlled with a check box.

- Limit is \$750,000 for debt acquired after TCJA but before sunset (was \$1,000,000)

Miscellaneous Itemized Deductions

Miscellaneous itemized deductions are eliminated until TCJA sunset. Miscellaneous deductions show on D10 column 6 in Golden Years.

- Miscellaneous deductions count as 0 for TCJA year calculations

State, Local, and Property Tax Deduction (SALT)

State tax, property tax, foreign tax, and local tax count under the same category for deductions and are limited to \$10,000 until TCJA sunset. State/property deductions show on D10 column 4 in Golden Years.

- State/Property tax deduction limited to \$10,000 until TCJA sunset
- D10 property tax deduction column removed and combined with State tax column

State Tax Addback of Federal Deduction

This happens only when "Apply Single and Joint tax rate tables below to" is set to "Taxable Income" and there is more than \$10,000 of state/property tax in TCJA years. Since the entire amount of the deduction may not be state tax, only the proportional state amount is added back for state taxes. Laws are yet to be established and will vary from state to state.

- D17 state property and other addback on column 4 in Golden Years now adds back ONLY the proportional state tax portion of the federal deduction rather than the whole amount until TCJA sunset

Alimony Deduction

Alimony used to be deductible by the payer and added to the income of the receiver. With the TCJA, alimony is not deductible by the payer if the divorce happened after 12/30/2018 and is not counted as income.

- Inputs for alimony in total assume that alimony is deductible (Tax – File Status/Options)

Affordable Care Act (ACA)

Individual mandate repealed after 2018 tax year.

- A10 in Golden Years & F12 in Easy Money – New text for 2018

Alternative Minimum Tax (AMT)

AMT exemption/exclusion and phase-out levels increased until TCJA sunset. AMT is shown on D12 in Golden Years.

- Single Exemption is \$70,300 (was \$55,400)
- Joint Exemption is \$109,400 (was \$86,200)
- Single phase-out begins \$500,000 (was \$123,100)
- Joint phase-out begins \$1,000,000 (was \$164,100)

Estate Tax

Estate tax exclusion doubled until the TCJA sunset, rate is unchanged at 40%. Estate tax can be seen in the estate report section in Golden Years and Easy Money.

- For single individual exclusion is now \$11,200,000 (was \$5,600,000)
- For joint couple exclusion is now \$22,400,000 (was \$11,200,000)

TCJA Sunset

Most of the TCJA (Tax Cuts & Jobs Act) individual tax cuts are temporary and revert back to 2017 law at after the 2025 tax year. 1/1/2026 will be the first day of the new law without congress making changes to the law between now and then. In TOTAL, we call this the “sunset” or “TCJA sunset”

Changes:

- When the sunset happens, every calculation effected by the TCJA will revert to 2017 law (indexed for inflation)
- Changes made to D1 in Golden Years to reflect the TCJA and sunset provision
- Changes made to D3 in Golden Years and Easy Money to follow TCJA tax rules

Sunset Happens/No Sunset

This new setting controls whether the TCJA sunset happens. The projection will either revert to 2017 tax law on 1/1/2026 as the law is currently written (Sunset Happens) or carries TCJA tax law through the entire projection (No Sunset). There is speculation that some or all of the tax cuts could be continued indefinitely between now and 2026 so No Sunset can be a useful option.

Changes:

- Sunset dropdown added to Taxes – File Status/Options – Federal Tax Data
- Sunset dropdown added to What-If in TOTAL Online – Taxes

Tax Brackets

All the tax brackets have changed until the TCJA sunset. Tax brackets can be seen on report page D8 in Golden Years.

Changes:

- Brackets and rates, see “2018 Annual Limits Relating to Financial Planning” for details
- D8 in Golden Years has a horizontal dividing line to indicate when the TCJA sunset happens, brackets are different above and below this line

Long-Term Capital Gains (Dividends)

Capital Gains brackets no longer match up with regular tax brackets until the TCJA sunset. During TCJA years, they still track the old pre-TCJA brackets (adjusted for inflation). Capital gain tax can be seen on D8 in Golden Years.

Changes:

- Long-term capital gains bracket break points have changed (see “2018 Annual Limits Relating to Financial Planning” for details)

Inflation Indexing/Adjustments

Many tax numbers and formulas are increased adjusted for inflation. Numbers are rounded to the nearest \$50 or \$100 but the rules for this vary. This used to be done using the CPI-U (Consumer Price Index for All Urban Consumers) but the TCJA has changed the index used to the C-CPI-U (Chained Consumer Price Index for All Urban Consumers).

Using the C-CPI-U results in lower inflation numbers (estimated to be 0.25% lower than the CPI-U on average). This is a tiny permanent tax increase. Unlike most of the rest of the individual TCJA provisions, ***using the C-CPI-U does not sunset.***

Increases due to inflation include:

- AMT Exclusion/Bracket
- Tax Brackets (and capital gains tax brackets)
- Retirement Plan contribution limits
- Standard Deduction & Blind/Elderly Deduction
- Itemized Phase-out (Pease)
- Exemption & Exemption Phase-out

Easy Money & TCJA

Easy Money's tax method of calculating the client's marginal tax rate for the first year and carrying the tax rate forward means the TCJA rule changes will impact the client's projections, but the changes were limited to the current year tax calculation and the estate planning reports. Easy Money doesn't sunset the income tax changes for that same reason (estate taxes will sunset unless the option to not sunset is selected).

Read more about the differences between Easy Money and Golden Years:

<https://www.moneytree.com/goal-vs-cash-flow-planning>

References

Analysis of the Tax Cuts & Jobs Act

Tax Policy Center

<http://www.taxpolicycenter.org/feature/analysis-tax-cuts-and-jobs-act>

Single page before and after summary of the major changes in the TCJA.

2018 Annual Limits Relating To Financial Planning

College of Financial Planning

<http://www.cffpinfo.com/annual-limits>

The 2018 annual limits pdf is handy to see the numbers of the change, tax brackets, standard deductions, etc.

Joint Explanatory statement for Tax Cut and Jobs Act

US Congress

<http://docs.house.gov/billsthisweek/20171218/Joint%20Explanatory%20Statement.pdf>

The statement is a summary of the law written by congress for those who want to dig deeply into the nuts and bolts of the TCJA. Look for where it says "Conference Agreement" to see the final decision.

Tax Cuts and Jobs Act Congressional Bill

US Congress

<http://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-466.pdf>

Full text of the tax cut bill.