TAX OFFICE & ASSOCIATES™

We Make Taxes EZ . . . Because It's Your Money™

TAX REFORM

The Tax Cuts and Jobs Act of 2017 (TCJA) brought about the biggest tax reform in decades, so almost every American has been affected in some way.

Tax Brackets

In general, greater amounts of income are now taxed at lower rates, so virtually everyone is subject to lower taxes as a result. You can compare and contrast tax brackets in the tables below.

2017 TAX BRACKETS

Tax Rate	Single	Married Filing Jointly	Married Filing Separately	Head of Household	Qualifying Widow/Widower
10%	$0 - $9,325	$0 - $18,650	$0 - $9,325	$0 - $13,350	$0 - $18,650
15%	$9,326-$37,950	$18,651-$75,900	$9,326-$37,950	$13,351-$50,800	$18,651-$75,900
25%	$37,951-$91,900	$75,901-$153,100	$76,551-$116,675	$50,801-$131,200	$75,901-$153,100
28%	$91,901-$191,650	$153,101-$233,350	$76,551-$116,675	$131,200-$212,500	$153,101-$233,350
33%	$191,651-$416,700	$233,351-$416,700	$116,676-$208,350	$212,501-$416,700	$233,351-$416,700
35%	$416,701-$418,400	$416,701-$470,000	$208,351-$235,350	$416,701-$444,550	$416,701-$470,000
39.6%	$418,401 or more	$470,001 or more	$235,351 or more	$444,551 or more	$470,001 or more

2021 TAX BRACKETS

Tax Rate	Single	Married Filing Jointly	Married Filing Separately	Head of Household	Qualifying Widow/Widower
10%	$0 - $9,950	$0 - $19,900	$0 - $9,950	$0 - $14,200	$0 - $19,900
12%	$9,951 - $40,525	$19,901 - $81,050	$9,951 - $40,525	$14,201 - $54,200	$19,901 - $81,050
22%	$40,526 - $86,325	$81,051 - $172,750	$40,526 - $86,375	$54,201 - $86,350	$81,051 - $172,750
24%	$86,376 - $164,925	$172,751 - $329,850	$86,376 - $164,925	$86,351 - $164,900	$172,751 - $329,850
32%	$164,926 - $209,425	$329,851 - $418,850	$164,926 - $209,425	$164,901 - $209,400	$329,850 - $418,850
35%	$209,426 - $523,600	$418,851 - $628,300	$209,426 - $314,150	$209,401 - $523,600	$418,851 - $628,300
37%	$523,601 or more	$628,301 or more	$314,151 or more	$523,601 or more	$628,301 or more

Standard Deduction Amounts and the Personal Exemption

Taxpayers used to get a personal exemption amount of $4,050 per person in 2017 that would reduce taxable income. The TCJA repealed the personal exemption, however, in favor of raising the standard deduction. The standard deduction also reduces your taxable income but only applies to each filer, not each person in the household.

Taxpayers can still itemize deductions, but many won't have enough individual deductions to merit itemizing. This is also because all itemized deductions have been repealed except state and local income taxes (capped at $10,000), mortgage interest, medical expenses, disaster losses (attributable to a federally declared disaster), charitable contributions (up to 100% of AGI in 2021 due to the CARES Act), and other deductions not subject to the 2% floor. Deductions for unreimbursed employee expenses, tax preparation fees and safety deposit boxes have been eliminated.

Here are the new standard deduction amounts for each filing status:

Single or Married Filing Separately	**$12,550**
Married Filing Jointly or Widow(er)	**$25,100**
Head of Household	**$18,800**

NOTE: For 2021, the standard deduction amount for a tax filer who is claimed on someone else's tax return as a dependent cannot exceed:

- The greater of $1,100, or
- The sum of $350 and the individual's earned income (not to exceed the regular standard deduction amount).

Child Tax Credit

Taxpayers with kids, or any qualifying dependents, will get a boost from the Child Tax Credit (CTC) rates. The credit amount per child is $2,000, and $1,400 of that amount can be refundable (meaning that, if your tax liability is reduced to zero, you could still get up to $1,400 in refund money). Plus, qualifying dependents who are not children qualify for a temporary $500 nonrefundable credit.

Be aware that there are phaseouts for the Child Tax Credit: married taxpayers filing jointly with an AGI greater than $400,000 and all other taxpayers with an AGI greater than $200,000 will begin to phase out.

Affordable Care Act

The penalty on individuals for failing to maintain minimum essential health coverage has been repealed, starting in 2019.

Medical Expenses

You can deduct medical expenses that exceed 7.5% of your income.

Mortgage Interest

Single taxpayers can deduct interest up to $750,000 on new mortgage debt (down from the former $1,000,000 limit), and married couples filing separately can deduct up to $375,000 (down from the former $500,000 limit).

Mortgage loans that started before December 15, 2017 will not be affected by the new deduction limit.

You may also be able to deduct interest paid on a home equity loan, provided the loan is to buy, build or substantially improve your home. You may deduct the interest if the loan does not exceed $100,000 (if married filing separately, the maximum is $50,000).

Borrowing against your home for any other purpose, such as repaying credit card and various other debts, is no longer deductible.

Moving Expense Reimbursements

Unless you are an active-duty member of the Armed Forces who moves due to military orders, you can no longer claim the exclusion for moving expenses.

Alimony

The payer spouse can no longer deduct alimony from their taxable income, and the payment is no longer included in the receiving spouse's taxable income, for divorce or separation agreements executed after Dec. 31, 2018.

This also applies to a divorce or separation agreement executed on or before Dec. 31, 2018, and modified after December 31, 2018, as long as the modification:

- Changes the terms of the alimony or separate maintenance payments; and
- States that the alimony or separate maintenance payments are not deductible by the payer spouse or includable in the income of the receiving spouse.

However, as long as any modifications are not one described in the preceding paragraph, divorce or separation agreements made on or before December 31, 2018 will be grandfathered in based on the old rules: Generally, alimony or separate maintenance payments are deductible from the income of the payer spouse and includable in the income of the receiving spouse.

Section 529 Plans

The distribution limitation of $10,000 now applies on a per-student basis instead of a per-account basis. These distributions can now be used for public, private, or religious education in elementary or secondary schools.

Qualifying expenses include:

- Curricular courses and materials
- Books or other instructional materials
- Online educational materials
- Tutoring or educational classes outside of the home (provided the instructor is not a relative of the student)
- Dual enrollment in an institution of higher education
- Educational therapies for students with disabilities

Vehicle Depreciation

The Tax Cuts and Jobs Act changed depreciation limits for passenger vehicles placed in service after Dec. 31, 2017. If the taxpayer doesn't claim bonus depreciation, the greatest allowable depreciation deduction is:

- $10,100 for the first year
- $16,100 for the second year
- $9,700 for the third year
- $5,760 for each later taxable year in the recovery period

If a taxpayer claims 100% bonus depreciation, the greatest allowable depreciation deduction is:

- $18,100 for the first year
- $16,100 for the second year
- $9,700 for the third year
- $5,760 for each later taxable year in the recovery period

Qualified Business Income (QBI) 20% deduction

The QBI deduction is for individuals who have partnership, S corporation, LLC, or sole proprietorship income—which includes the millions of freelancers and contractors out there working for themselves and filing a Schedule C to report income on their tax return. The QBI deduction is worth 20% of your "qualified business income" (essentially your net profit), and it reduces your taxable income.

You don't have to itemize your deductions in order to claim the QBI deduction, but the business must be conducted in the U.S.

For taxpayers whose taxable income exceeds a statutorily-defined amount, referred to as the "threshold amount," their QBI deduction may be limited based on:

- The type of trade or business,
- The amount of W-2 wages paid, and/or
- Their business investment.

Certain rules apply to Specified Service Trades or Businesses (SSTBs). An SSTB is any business activity where revenue is generated from a specialized skill or service like health, law or medicine.

For tax year 2021, the phase-in ranges are as follows:

Filing Status	Phase-in Range	Threshold Amount
Single or Head of Household	$50,000	$164,900
Married Filing Jointly	$100,000	$329,800
Married Filing Separately	$50,000	$164,900

Bonus Depreciation

The bonus depreciation percentage is up from 50% to 100% for qualified property acquired and placed in service after September 27, 2017, and before January 1, 2023. Additional first year depreciation is available on used property.