2023 Tax Code Quick Review from Tax Cuts and Jobs Act Provisions

Presented by

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Introduction

The Tax Cuts and Jobs Act of forms the current foundation of the US tax code. The Tax Cuts and Jobs Act is organized into four primary sections of: Individual Tax Reform, Business Tax Reform, Exempt Organizations and International provisions. This is an updated course for 2023 that will provide a quick review of all four portions of the Tax Cuts and Jobs Act Bill (H.R.1.) and it also includes the provisions that have changed for 2023. This course will provide a summary description of all provisions referenced in the Tax Cuts and Jobs Act for each of the primary sections. It will identify which sections changed for 2018 and which were updated for 2023.

Learning Objectives

At the end of this course, students will be able to:

- Review the Individual Tax Reform provisions and identify which sections changed for 2018 and which were updated for 2023;
- Review the Business Tax Reform provisions and identify which sections changed for 2018 and which were updated for 2023;
- Review the Exempt Organizations provisions and identify which sections changed for 2018 and which were updated for 2023;
- Review the International Tax provisions and identify which sections changed for 2018 and which were updated for 2023; and
- Identify the effective dates for all provisions in the Tax Cuts and Jobs Act.

CPE Credit: 3 CPE for CPAs and EAs

Level: Intermediate

Instructional Method: Self-Study

NASBA Field of Study: Taxes

Program Prerequisites: Basic understanding of federal tax code.

Advanced Preparation: None

INDIVIDUAL TAX REFORM

Reduction and Simplification of Individual Income Tax Rates

Individual income tax

The Tax Cuts and Jobs Act changed the tax rates as well as the income levels. In general, the tax rates have been lowered. The lower tax rates will remain in effect until 2025 or until the tax code is changed again. If you look at the Federal rate rates, you will continue to see seven brackets, however, the bracket income ranges in several brackets have been changed. The tax rate has also been changed under current law (Tax Cuts and Job Act or simply the Act).

The following are tables comparing the bracket amounts and rates for 2017 to the bracket amounts and rates after 2017 for the different filing status.

Single Individuals

Federal Tax Rates for 2017		Federal Tax Rates in 2018	
Rate	Income Bracket	Rate	Income Bracket
10%	$0 to $9,325	10%	$0 to $9,525
15%	Over $9,325 but not over $37,950	12%	Over $9,525 but not over $38,700
25%	Over $37,950 but not over $91,900	22%	Over $38,700 but not over $82,500
28%	Over $91,900 but not over $191,650	24%	Over $82,500 but not over $157,500
33%	Over $191,650 but not over $416,700	32%	Over $157,500 but not over $200,000
35%	Over $416,700 but not over $418,400	35%	Over $200,000 but not over $500,000
39.6%	Over $418,400	37%	Over $500,000

Heads of Household

Federal Tax Rates for 2017		Federal Tax Rates in 2018	
Rate	Income Bracket	Rate	Income Bracket
10%	$0 to $13,350	10%	$0 to $13,600
15%	Over $13,350 but not over $50,800	12%	Over $13,600 but not over $51,800
25%	Over $50,800 but not over $131,200	22%	Over $51,800 but not over $82,500
28%	Over $131,200 but not over $212,500	24%	Over $82,500 but not over $157,500
33%	Over $212,500 but not over $416,700	32%	Over $157,500 but not over $200,000

35%	Over $416,700 but not over $444,500	35%	Over $200,000 but not over $500,000
39.6%	Over $444,500	37%	Over $500,000

Married Individuals Filing Joint Returns and Surviving Spouses

Federal Tax Rates for 2017		Federal Tax Rates in 2018	
Rate	Income Bracket	Rate	Income Bracket
10%	$0 to $18,650	10%	$0 to $19,050
15%	Over $18,650 but not over $75,900	12%	Over $19,050 but not over $77,400
25%	Over $75,900 but not over $153,100	22%	Over $77,400 but not over $165,000
28%	Over $153,100 but not over $233,350	24%	Over $165,000 but not over $315,000
33%	Over $233,350 but not over $416,700	32%	Over $315,000 but not over $400,000
35%	Over $416,700 but not over $470,700	35%	Over $400,000 but not over $600,000
39.6%	Over $470,700	37%	Over $600,000

Married Individuals Filing Separate Returns

Federal Tax Rates for 2017		Federal Tax Rates in 2018	
Rate	Income Bracket	Rate	Income Bracket
10%	$0 to $9,325	10%	$0 to $9,525
15%	Over $9,325 but not over $37,950	12%	Over $9,525 but not over $38,700
25%	Over $37,950 but not over $76,550	22%	Over $38,700 but not over $82,500
28%	Over $76,550 but not over $116,675	24%	Over $82,500 but not over $157,500
33%	Over $116,675 but not over $208,350	32%	Over $157,500 but not over $200,000
35%	Over $208,350 but not over $235,350	35%	Over $200,000 but not over $300,000
39.6%	Over $235,350	37%	Over $300,000

Estates and Trusts

Federal Tax Rates for 2017		Federal Tax Rates in 2018	
Rate	Income Bracket	Rate	Income Bracket
15%	$0 to $2,550	10%	$0 to $2,550
25%	Over $2,550 but not over $6,000	24%	Over $2,550 but not over $9,150

28%	Over $6,000 but not over $9,150	35%	Over $9,150 but not over $12,500
33%	Over $9,150 but not over $12,500	37%	Over $12,500
39.6%	Over $12,500		

Tax Bracket Amounts and Rates for 2022

In 2022, the income limits for all tax brackets and all filers will be adjusted for inflation. The top marginal income tax rate of 37 percent will hit taxpayers with taxable income of $539,900 and higher for single filers and $647,850 and higher for married couples filing jointly.

Single Individuals

Federal Tax Rates in 2022	
Rate	Income Bracket
10%	$0 to $10,275
12%	Over $10,275 but not over $41,775
22%	Over $41,775 but not over $89,305
24%	Over $89,305 but not over $170,050
32%	Over $170,050 but not over $215,950
35%	Over $215,950 but not over $539,900
37%	Over $539,900

Heads of Household

Federal Tax Rates in 2022	
Rate	Income Bracket
10%	$0 to $14,650
12%	Over $14,650 but not over $55,900
22%	Over $55,900 but not over $89,050
24%	Over $89,050 but not over $170,050
32%	Over $170,050 but not over $215,950
35%	Over $215,950 but not over $539,900
37%	Over $539,900

Married Individuals Filing Joint Returns and Surviving Spouses

Federal Tax Rates in 2022	
Rate	Income Bracket
10%	$0 to $20,550
12%	Over $20,550 but not over $83,550
22%	Over $83,550 but not over $178,150
24%	Over $178,150 but not over $340,100

32%	Over $340,100 but not over $431,900
35%	Over $431,900 but not over $647,850
37%	Over $647,850

Married Individuals Filing Separate Returns

Federal Tax Rates in 2022	
Rate	Income Bracket
10%	$0 to $10,275
12%	Over $10,275 but not over $41,775
22%	Over $41,775 but not over $89,075
24%	Over $89,075 but not over $170,050
32%	Over $170,050 but not over $215,950
35%	Over $215,950 but not over $323,925
37%	Over $323,925

Estates and Trusts

Federal Tax Rates in 2022	
Rate	Income Bracket
10%	$0 to $2,750
24%	Over $2,750 but not over $9,850
35%	Over $9,850 but not over $13,450
37%	Over $13,450

Tax Bracket Amounts and Rates for 2023

In 2023, the income limits for all tax brackets and all filers will be adjusted for inflation. The top marginal income tax rate of 37 percent will hit taxpayers with taxable income of $539,900 and higher for single filers and $647,850 and higher for married couples filing jointly.

Single Individuals

Federal Tax Rates in 2023	
Rate	Income Bracket
10%	$0 to $11,000
12%	Over $11,000 but not over $44,725
22%	Over $44,725 but not over $95,375
24%	Over $95,375 but not over $182,100
32%	Over $182,100 but not over $231,250
35%	Over $231,250 but not over $578,125
37%	Over $578,125

Heads of Household

Federal Tax Rates in 2023	
Rate	Income Bracket
10%	$0 to $15,700
12%	Over $15,700 but not over $59,850
22%	Over $59,850 but not over $95,350
24%	Over $95,350 but not over $182,100
32%	Over $182,100 but not over $231,250
35%	Over $231,250 but not over $578,100
37%	Over $578,100

Married Individuals Filing Joint Returns and Surviving Spouses

Federal Tax Rates in 2023	
Rate	Income Bracket
10%	$0 to $22,000
12%	Over $22,000 but not over $89,450
22%	Over $89,450 but not over $190,750
24%	Over $190,750 but not over $364,200
32%	Over $364,200 but not over $462,500
35%	Over $462,500 but not over $693,750
37%	Over $693,750

Married Individuals Filing Separate Returns

Federal Tax Rates in 2023	
Rate	Income Bracket
10%	$0 to $11,000
12%	Over $11,000 but not over $44,725
22%	Over $44,725 but not over $95,375
24%	Over $95,375 but not over $182,100
32%	Over $182,100 but not over $231,250
35%	Over $231,250 but not over $346,875
37%	Over $346,875

Estates and Trusts

Federal Tax Rates in 2023	
Rate	Income Bracket
10%	$0 to $2,900

24%	Over $2,900 but not over $10,550
35%	Over $10,550 but not over $14,450
37%	Over $14,450

Increase in standard deduction

2022 Standard Deduction Amounts

The standard deduction amounts for the different filing status for 2021 were increased to the following amounts for 2022:

- $12,950 for individuals and married couples filing separately,
- $19,400 for heads of household, and
- $25,900 for married couples filing jointly and surviving spouses.

For 2022, the additional standard deduction amount for the aged or the blind is $1,350 for married taxpayers and $1,700 for unmarried taxpayers.

2022 Summary from 2021

For single filers, the standard deduction increased from $12,550 to $12,950. For heads of household, the basic standard deduction increased from $18,800 to $19,400. Finally, for married individuals filing a joint return as well as surviving spouses, the standard deduction increased from $25,100 to $25,900.

2023 Standard Deduction Amounts

The standard deduction amounts for the different filing status for 2022 were increased to the following amounts for 2023:

- $13,850 for individuals and married couples filing separately,
- $20,800 for heads of household, and
- $27,700 for married couples filing jointly and surviving spouses.

For 2023, the additional standard deduction amount for the aged or the blind is $1,350 for married taxpayers and $1,700 for unmarried taxpayers.

2023 Summary from 2022

For single filers, the standard deduction increased from $12,950 to $13,850. For heads of household, the basic standard deduction increased from $19,400 to $20,800. Finally, for married individuals filing a joint return as well as surviving spouses, the standard deduction increased from $25,900 to $27,700.

Repeal of the deduction for personal exemptions

Under the Tax Cuts and Jobs Act, the personal exemption is eliminated. In 2017, the personal deduction was a deduction of $4,050 per taxpayer and dependent, unless the taxpayer and dependent was an estate or trust.

Alternative inflation adjustment

Under the Tax Cuts and Jobs Act, a new inflation measure, Chained CPI (or C-CPI) will be applied to the brackets instead of the Consumer Price Index (CPI). The objective for this change is for the tax brackets to increase more slowly than if they were measured using the CPI alone.

Chained CPI is a variant of the traditional CPI. Both are reported monthly by the U.S. Labor Department’s Bureau of Labor Statistics, and both track the prices of a "basket" of 80,000 goods and services bought by consumers in urban areas. But chained CPI adjusts for what’s known as substitution bias by recognizing that consumers tend to shift their purchasing behavior as the relative prices of things change.

The gauge’s official name is the Chained Consumer Price Index for All Urban Consumers, or C-CPI-U.

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

Treatment of Business Income of Individuals, Trusts, and Estates

Deduction for qualified business income

For taxable years beginning after December 31, 2017, taxpayers other than C-Corporations may be entitled to a deduction of up to 20 percent of their qualified business income from a qualified trade or business under the Tax Cuts and Jobs Act. Additionally, taxpayers may also be entitled to a deduction of 20% of their combined qualified real estate investment trust (REIT) dividends and qualifying publicly traded partnership (PTP) income. When both of these amounts are added together, it is referred to as a taxpayer’s combined qualified business income amount. This deduction can be taken in addition to the standard or itemized deductions. The deduction is subject to multiple limitations based on:

- The type of trade or business,
- The taxpayer’s taxable income,
- The amount of W-2 wages paid with respect to the qualified trade or business, and
- The unadjusted basis of qualified property held by the trade or business.

Notwithstanding these limitations, however, taxpayers with qualified business income (which does not include income from performing services as an employee) and with taxable income under $182,100, or

$364,200 for joint returns, will generally be eligible for the deduction. When the Tax Cuts and Jobs Act was first drafted into law, the IRS had yet to describe this deduction in great detail. However, the IRS now has much more detailed requirements and guidelines associated with the section 199A deduction. These will be discussed in more detail below:

According to the IRS, for the purposes of calculating the 199A deduction, qualified business income, or QBI, is defined as "The net amount of qualified items of income, gain, deduction and loss from any qualified trade or business." In order for an amount to be considered Qualified Business Income for the purposes of this deduction, it must meet two extra criteria while fitting into the above definition. It must be effectively connected to a U.S. trade or business, and the amount must be includable in taxable income. Because of these extra rules, certain taxable items such as capital gains/losses, interest, and certain dividends are excluded from the calculation of this deduction.

In order for a taxpayer to be eligible for this credit in the first place, the business income must come from a qualified trade or business. According to the IRS, a qualified trade or business is any trade or business, with two exceptions. The first exception is if the business is known as a specified trade or business (SSTB). A specified trade or business is any trade or business which earns a taxable income above $364,200 for married couples and $182,100 for all other taxpayers and involves services in any of the following fields: law, accounting, actuarial science, performing arts, consulting, athletics, financial services, investing and investment management, trading, dealing in certain assets, or any trade or business where the principle asset is the reputation or skill of one or more of its employees. The second exception for this deduction stems from whether or not the taxpayer is performing services as an employee. Any income derived from services performed as an employee do not qualify for the Business income deduction.

As this deduction is written right now, the phaseout amount is (1) the same for all tax situations that involve QBI, and (2) calculated separately for each business that the taxpayer is involved in. The phaseout range is from $364,200 to $464,200 for married taxpayers filing jointly and $182,100 to $232,100 for all other taxpayers. If the taxpayer's taxable income is below these thresholds, then the section 199A deduction is the lesser of (1) 20% of the taxpayer's QBI, plus 20% of the taxpayer's qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income, or (2) 20% of the taxpayer's taxable income minus net capital gains. However, the actual calculation of QBI is different if the taxpayer's income is within the threshold amounts and whether their business is a SSTB or not. If the business that the taxpayer participates in is a SSTB, then they are only allowed a QBI deduction up until their business taxable income surpasses the maximum phaseout threshold. In addition, if the taxpayer's taxable income is within the phaseout threshold but not surpassing it, then their QBI deduction must be limited by W-2 wages and the unadjusted basis immediately after acquisition (UBIA) of qualified property in order to properly determine their applicable section 199A deduction. Specifically, what would be used to limit the deduction is the greater or either (1) 50% of the W-2 wages reported by the trade or business, or (2), the sum of 25% of W-2 wages reported by the trade or business plus 2.5% of UBIA for all qualified property.

However, if the taxpayer's business is one that is not a SSTB, then that taxpayer may still be entitled to receive a section 199A deduction past the phaseout amount, but the final deduction amount will be limited by W-2 wages paid by the qualified trade or business and the UBIA of qualified property held by the trade or business. This means that depending on the W-2 wages paid by the business and the UBIA of qualified property held by the trade or business, a section 199A deduction may still not be possible for a non-SSTB business past the threshold amounts, but should be calculated on a case-by-case basis.

The only situation where the section 199A deduction is applied differently is in the case of agricultural or horticultural cooperatives. In these cases, a specified agricultural or horticultural cooperative may claim the Section 199A deduction for the tax year equal to 9% of the lesser of the following: (1) the cooperative's qualified production activities income (QPAI) or (2) the cooperative's taxable income. This deduction cannot be more than half of the cooperative's W-2 wages paid during the tax year. Therefore, if an agricultural or horticultural cooperative files no W-2 wages during the tax year, then they are not eligible for the section 199A deduction.

Any taxpayer who claims the section 199A deduction without actually qualifying for the deduction may be subject to a 20% penalty for substantial underpayment of income tax. This penalty applies if the understatement of tax is greater than either $5,000 or 5% of the tax that is required to be shown on the current-year tax return.

Simplification and Reform of Family and Individual Tax Credits

Enhancement of child tax credit and new family credit

An individual may claim a tax credit for each qualifying child under the age of 17. For 2023, the child tax credit is equal to $2,000 per qualifying child. The maximum amount refundable may not exceed $1,600 per qualifying child. The credit is further modified to temporarily provide for a $500 nonrefundable credit for qualifying dependents other than qualifying children. The provision generally retains the present-law definition of a dependent. The child tax credit totals are not adjusted for inflation.

The credit begins to phase out for taxpayers with an adjusted gross income in excess of $400,000 for married taxpayers filing a joint return and $200,000 for all other taxpayers. These phaseout thresholds are not indexed for inflation.

This means that the child tax credit doubled from $1,000 to $2,000, where $1,600 of which will be refundable. There is also a $500 credit for other dependents, compared to zero under the pre-2018 law. The phaseout for the Child Tax Credit changes from $110,000 AGI to $400,000 for married filers and from $75,000 for single individuals or heads of households to $200,000 through 2025.

Credit for the elderly and permanently disabled

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not change the credit for the elderly and permanently disabled taxpayers.

- Aged 65 or older OR retired on permanent and total disability and received taxable disability income for the tax year; AND
- With an adjusted gross income OR the total of nontaxable Social Security, pensions annuities or disability income under specific limits

The credit ranges between $3,750 and $7,500.

Repeal of credit for plug-in electric drive motor vehicles

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not repeal of credit for plug-in electric drive motor vehicles.

Termination of credit for interest on certain home mortgages

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not change this section of the IRC.

Modification of taxpayer identification number requirements for the child tax credit, earned income credit, and American Opportunity credit.

The Tax Cuts and Jobs Act includes, as a part of the temporary modifications to the child tax credit, for the taxable years 2018 through 2025, in order to receive the refundable portion of the child tax credit, a taxpayer must include a Social Security number for each qualifying child for whom the credit is claimed on the tax return.

Procedures to reduce improper claims of earned income credit

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not implement any procedures to reduce improper claims of earned income credit.

Certain income disallowed for purposes of the earned income tax credit

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not implement any provision to disallow certain income for purposes of the earned income tax credit.

Limitation on losses for taxpayers other than corporations

The Tax Cuts and Jobs Act ("TCJA") imposes a new limit on the deductibility of business losses incurred by taxpayers other than corporations. For taxable years beginning after December 31, 2017 and before January 1, 2026, excess business losses of a taxpayer other than a corporation are not allowed for the taxable year. Excess business losses not allowed are carried forward and treated as part of the taxpayer's net operating loss ("NOL") carryforward in subsequent taxable years as determined under the NOL rules.

Under the bill, NOL carryovers generally are allowed for a taxable year up to the lesser of the carryover amount or 90 percent (80 percent for taxable years beginning after December 31, 2022) of taxable income determined without regard to the deduction for NOLs. A taxpayer's loss from a non-passive trade or business is now limited to $500,000 for married individuals filing jointly ($250,000 for other taxpayers) for tax years beginning after December 31, 2017 and before January 1, 2026.

Reform of American opportunity tax credit and repeal of lifetime learning credit

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not implement any reform of the American Opportunity Tax Credit and it did not repeal the Lifetime Learning Credit.

Consolidation and modification of education savings rules

The Tax Cuts and Jobs Act modifies section 529 plans to allow such plans to distribute not more than $10,000 in expenses for tuition incurred during the taxable year in connection with the enrollment or attendance of the designated beneficiary at a public, private or religious elementary or secondary school. This limitation applies on a per-student basis, rather than a per-account basis. Thus, under the provision, although an individual may be the designated beneficiary of multiple accounts, that individual may receive a maximum of $10,000 in distributions free of tax, regardless of whether the funds are distributed from multiple accounts. Any excess distributions received by the individual would be treated as a distribution subject to tax under the general rules of section 529 of the IRC.

The provision also modifies the definition of higher education expenses to include certain expenses incurred in connection with a homeschool. Those expenses are (1) curriculum and curricular materials; (2) books or other instructional materials; (3) online educational materials; (4) tuition for tutoring or educational classes outside of the home (but only if the tutor or instructor is not related to the student); (5) dual enrollment in an institution of higher education; and (6) educational therapies for students with disabilities.

Reforms to discharge of certain student loan indebtedness

The Tax Cuts and Jobs Act modifies the exclusion of student loan discharges from gross income, by including within the exclusion certain discharges on account of death or disability. Loans eligible for the exclusion under the provision are loans made by (1) the United States (or an instrumentality or agency thereof), (2) a State (or any political subdivision thereof), (3) certain tax-exempt public benefit corporations that control a State, county, or municipal hospital and whose employees have been deemed to be public employees under State law, (4) an educational organization that originally received the funds from which the loan was made from the United States, a State, or a tax-exempt public benefit corporation, or (5) private education loans (for this purpose, private education loan is defined in section 140(7) of the Consumer Protection Act).

Under the provision, the discharge of a loan as described above is excluded from gross income if the discharge was pursuant to the death or total and permanent disability of the student.

Additionally, the provision modifies the gross income exclusion for amounts received under the National Health Service Corps loan repayment program or certain State loan repayment programs.

Repeal of deduction for student loan interest

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not repeal the deduction for student loan interest.

Repeal of deduction for qualified tuition and related expenses

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not repeal the deduction for qualified tuition and related expenses.

Repeal of exclusion for qualified tuition reductions

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not repeal the exclusion for qualified tuition reductions.

Repeal of exclusion for interest on United States savings bonds used for higher education expenses

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not repeal the exclusion for interest on United States savings bonds used for higher education expenses.

Repeal of exclusion for educational assistance programs

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not repeal the exclusion for educational assistance programs.

Rollovers between qualified tuition programs and qualified ABLE programs

The Tax Cuts and Jobs Act allows for amounts from qualified tuition programs (also known as 529 accounts) to be rolled over to an ABLE account without penalty, provided that the ABLE account is owned by the designated beneficiary of that 529 account, or a member of such designated beneficiary's family. Such rolled-over amounts count towards the overall limitation on amounts that can be contributed to an ABLE account within a taxable year. Any amount rolled over that is in excess of this limitation shall be includible in the gross income of the distributee in a manner provided by section 72

Repeal of overall limitation on itemized deductions

In the current tax law (2017), the total amount of most otherwise allowable itemized deductions (other than the deductions for medical expenses, investment interest and casualty, theft or gambling losses) is limited for certain upper-income taxpayers.

The Tax Cuts and Jobs Act repeals the overall limitation on itemized deductions.

Simplification and Reform of Deductions and Exclusions

Modification of deduction for home mortgage interest

The Tax Cuts and Jobs Act provides that, in the case of taxable years beginning after December 31, 2017, and before January 1, 2026, a taxpayer may treat no more than $750,000 as acquisition indebtedness ($375,000 in the case of married taxpayers filing separately).

In the case of acquisition indebtedness incurred before December 15, 2017, this limitation is $1,000,000 ($500,000 in the case of married taxpayers filing separately). For taxable years beginning after December 31, 2025, a taxpayer may treat up to $1,000,000 ($500,000 in the case of married taxpayers filing separately) of indebtedness as acquisition indebtedness, regardless of when the indebtedness was incurred. Additionally, the conference agreement suspends the deduction for interest on home equity indebtedness. Thus, for taxable years beginning after December 31, 2017, a taxpayer may not claim a deduction for interest on home equity indebtedness. The suspension ends for taxable years beginning after December 31, 2025.

This means that only interest paid on indebtedness used to acquire, construct, or substantially improve the taxpayer's principal residence may be included in the calculation of the deduction. Thus, under the provision, a taxpayer receives no deduction for interest paid on indebtedness used to acquire a second home.

Second, mortgage interest deduction for newly purchased homes (and second homes) was lowered from total loan balances of $1 million under current law to $750,000 in 2018. This amount remains the same for 2023 at $750,000, or $375,000 for married taxpayers filing separately.

Finally, interest from home equity loans is no longer deductible, unless the money is used for home improvements.

Modification of deduction for taxes not paid or accrued in a trade or business

Under the Tax Cuts and Jobs Act, an individual may claim an itemized deduction of up to $10,000 ($5,000 for married taxpayers filing a separate return) for property taxes paid or accrued in the taxable year, in addition to any property taxes deducted in carrying on a trade or business or an activity described in section 212. Foreign real property taxes may not be deducted under this exception. Under the provision, in the case of an individual, State and local income, war profits, and excess profits taxes are not allowable as a deduction.

This means that the deduction for state and local income tax, sales tax, and property taxes ("SALT deduction") will be capped at $10,000 for all filing status.

Repeal of deduction for personal casualty and theft losses

Under the current tax code (2017), a taxpayer may generally claim a deduction for any loss sustained during the taxable year, not compensated by insurance or otherwise. For individual taxpayers, deductible losses must be incurred in a trade or business or other profit-seeking activity or consist of property losses arising from fire, storm, shipwreck, or other casualty, or from theft. Personal casualty or theft losses are deductible only if they exceed $100 per casualty or theft. In addition, aggregate net casualty and theft losses are deductible only to the extent they exceed 10 percent of an individual taxpayer's adjusted gross income.

The Tax Cuts and Jobs Act temporarily modifies the deduction for personal casualty and theft losses. Under the provision, a taxpayer may claim a personal casualty loss (subject to the limitations described above) only if such loss was attributable to a disaster declared by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

Limitation on wagering losses

The Tax Cuts and Jobs Act clarifies the scope of "losses from wagering transactions" as that term is used in section 165(d). Under the provision, this term includes any deduction otherwise allowable under chapter 1 of the Code incurred in carrying on any wagering transaction.

The provision is intended to clarify that the limitation on losses from wagering transactions applies not only to the actual costs of wagers incurred by an individual, but to other expenses incurred by the individual in connection with the conduct of that individual's gambling (Sec. 165(d)) activity. The provision clarifies, for instance, an individual's otherwise deductible expenses in traveling to or from a casino are subject to the limitation under section 165(d).

Modifications to the deduction for charitable contributions

The Tax Cuts and Jobs Act implements the following modifications to the present-law charitable contribution rules: (1) the increase in the percentage limit for charitable contributions of cash to public charities; (2) the denial of a charitable deduction for payments made in exchange for college athletic event seating rights; and (3) the repeal of the substantiation exception for certain contributions reported by the donee organization.

This change was created by taking into account that more individuals will choose to take the standard deduction rather than itemize their tax deductions because of the increase in standard deduction and limitation on itemized deduction for state and local taxes. As a result, these individuals will not see a tax savings from donations to churches or other eligible nonprofit organizations, and churches and other organizations may receive fewer charitable contributions.

In addition, the indexed estate tax exemption was doubled, which means many taxpayers will not need to include charitable contributions in their will to reduce the estate taxes. This is likely to reduce the amount of charitable contributions that will be given to churches and nonprofit organizations after January 1, 2018.

Repeal of Certain Miscellaneous Itemized Deductions Subject to the Two-Percent Floor

The Tax Cuts and Jobs Act suspends all miscellaneous itemized deductions that are subject to the two-percent floor under present law. Thus, under the provision, taxpayers may not claim the above-listed items as itemized deductions for the taxable years to which the suspension applies. The provision does not apply for taxable years beginning after December 31, 2025.

Repeal of deduction for medical expenses

The Tax Cuts and Jobs Act provides that, for taxable years beginning after December 31, 2016 and ending before January 1, 2019, the threshold for deducting medical expenses shall be 7.5-percent for all taxpayers. For these years, this threshold applies for purposes of the Alternative Minimum Tax in addition to the regular tax.

Starting January 1, 2019, the threshold for deducting medical expenses will be raised to 10% from 7.5%

Repeal of deduction for alimony payments and corresponding inclusion in gross income

Under the Tax Cuts and Jobs Act, alimony and separate maintenance payments are no longer deductible by the payor spouse. The Tax Cuts and Jobs Act repeals the Code provisions that specify that alimony and separate maintenance payments are included in income. Income used for alimony payments is taxed at the rates applicable to the payor spouse rather than the recipient spouse. The treatment of child support is not changed.

This provision is effective for any divorce or separation instrument executed after December 31, 2018, or for any divorce or separation instrument executed on or before December 31, 2018, and modified after that date, if the modification expressly provides that the amendments made by this section apply to such modification.

Repeal of deduction for moving expenses

The Tax Cuts and Jobs Act suspends the deduction for moving expenses for taxable years 2018 through 2025. However, during that suspension period, the provision retains the deduction for moving expenses and the rules providing for exclusions of amounts attributable to in-kind moving and storage expenses (and reimbursements or allowances for these expenses) for members of the Armed Forces (or their spouse or dependents) on active duty that move pursuant to a military order and incident to a permanent change of station.

The suspension of the deduction for moving expenses does not apply to taxable years beginning after December 31, 2025.

Termination of deduction and exclusions for contributions to medical savings accounts

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not terminate the deduction and exclusions for contributions to medical savings accounts.

Denial of deduction for performing artists and certain officials; Modification of deduction for educator expenses

The Tax Cuts and Jobs Act retains the present-law above-the-line deduction and limit for certain expenses of eligible educators.

Suspension of exclusion for qualified bicycle commuting reimbursement

The Tax Cuts and Jobs Act suspends the exclusion from gross income and wages for qualified bicycle commuting reimbursements. The exclusion does not apply to taxable years beginning after December 31, 2017 and before January 1, 2026.

Limitation on exclusion for employer-provided housing

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not implement a limitation on the exclusion for employer-provided housing.

Modification of exclusion of gain on sale of a principal residence

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not implement a modification of the exclusion for gain on sale of a principal residence.

Sunset of exclusion for dependent care assistance programs

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not implement a sunset of the exclusion for dependent care assistance programs.

Repeal of exclusion for qualified moving expense reimbursement

The Tax Cuts and Jobs Act repeals the exclusion from gross income and wages for qualified moving expense reimbursements except in the case of a member of the Armed Forces of the United States on active duty who moves pursuant to a military order.

Repeal of exclusion for adoption assistance programs

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not repeal the exclusion for adoption assistance programs.

Simplification and Reform of Savings, Pensions, Retirement

Repeal of special rule permitting recharacterization of IRA contributions

The Tax Cuts and Jobs Act repeals the special rule that allows a contribution to one type of IRA to be recharacterized as a contribution to the other type of IRA. However, this rule does not apply to a conversion contribution to a Roth IRA. Thus, recharacterization cannot be used to unwind a Roth conversion. However, recharacterization is still permitted with respect to other contributions. For example, an individual may make a contribution for a year to a Roth IRA and, before the due date for the individual's income tax return for that year, recharacterize it as a contribution to a traditional IRA.

Reduction in minimum age for allowable in-service distributions

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not implement a Reduction in minimum age for allowable in-service distributions.

Modification of rules governing hardship distributions

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not implement a modification of rules governing hardship distributions.

Modification of Rules Relating to Hardship Withdrawals from Cash or Deferred Arrangements

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not implement a modification of rules governing hardship withdrawals from cash or deferred arrangements.

Extended rollover period for the rollover of plan loan offset amounts in certain cases

The Tax Cuts and Jobs Act addresses the period during which a qualified plan loan offset amount may be contributed to an eligible retirement plan as a rollover contribution. A loan offset amount under the provision is the amount by which an employee's account balance under the plan is reduced to repay a loan from the plan.

The Tax Cuts and Jobs Act treats a qualified plan loan offset amount as a distribution from a qualified retirement plan, a section 403(b) plan, or a governmental section 457(b) plan. This will occur due to the termination of the plan or the failure to meet the repayment terms of the loan because of the employee’s severance from employment.

Modification of nondiscrimination rules for certain plans providing benefits or contributions to older, longer service participants

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not implement a modification of nondiscrimination rules for certain plans providing benefits or contributions to older, longer service participants.

Modification of rules applicable to length of service award programs for bona fide public safety volunteers

The Tax Cuts and Jobs Act increases the aggregate amount of length of service awards that may accrue for a bona fide volunteer with respect to any year of service to $6,000 and adjusts that amount in $500 increments to reflect changes in cost-of-living for years after the first year the provision is effective. For 2023, the amount is increased to $8,500

In addition, under the provision, if the plan is a defined benefit plan, the limit applies to the actuarial present value of the aggregate amount of length of service awards accruing with respect to any year of service. Actuarial present value is to be calculated using reasonable actuarial assumptions and methods, assuming payment will be made under the most valuable form of payment under the plan with payment commencing at the later of the earliest age at which unreduced benefits are payable under the plan or the participant’s age at the time of the calculation.

Modifications to Estate, Gift, and Generation-Skipping Transfers Taxes

Under the Tax Cuts and Jobs Act, the basic exclusion amount for an estate tax return for a 2018 date of death increases to $10 million, before taking the necessary inflation adjustment into account. Inflation adjustments increase the Estate Tax Exclusion to $11.18 million for 2018 from $5.49 million for 2017. The inflation adjustments increased the Estate Tax Exclusion to $12.92 million for 2023.

The Tax Cuts and Jobs Act increased the Gift Tax Exclusion to $15,000 for 2018 from $14,000 for 2017. The Gift Tax Exclusion has increased to $17,000 for the 2023.

Finally, the Tax Cuts and Jobs Act increased the Generation-Skipping Transfers Taxes Exclusion to $11.18 million for 2018 from $5.49 million for 2017. The inflation adjustments increased the Generation-Skipping Transfers Taxes Exclusion to $12.92 million for 2023.

Alternative Minimum Tax

AMT Rates

The Tax Cuts and Jobs Act temporarily increases both the exemption amount and the exemption amount phaseout thresholds for the individual AMT. Under the provision, for taxable years beginning after December 31, 2017, the AMT exemption amount is increased to $109,400 for married taxpayers filing a joint return (half this amount for married taxpayers filing a separate return), and $70,300 for all other taxpayers (other than estates and trusts). These amounts are indexed for inflation.

In 2018, the phaseout thresholds are increased to $1,000,000 for married taxpayers filing a joint return, and $500,000 for all other taxpayers (other than estates and trusts). These amounts are indexed for inflation.

In the case of a corporation, the Tax Cuts and Jobs Act allows the AMT credit to offset the regular tax liability for any taxable year. In addition, the AMT credit is refundable for any taxable year beginning after 2017 and before 2022 in an amount equal to 50 percent (100 percent in the case of taxable years beginning in 2021) of the excess of the minimum tax credit for the taxable year over the amount of the credit allowable for the year against regular tax liability. Thus, the full amount of the minimum tax credit will be allowed in taxable years beginning before 2022.

AMT Rates for 2022

The AMT exemption amount for 2022 is $75,900 for singles and $118,100 for married couples filing jointly. In 2021, the 28 percent AMT rate applies to excess AMTI of $206,100 for all taxpayers ($103,050 for married couples filing separate returns).

In 2022, the exemption will start phasing out at $539,900 in AMTI for single filers and $1,079,800 for married taxpayers filing jointly.

AMT Rates for 2023

The AMT exemption amount for 2023 is $81,300 for singles and $126,500 for married couples filing jointly. In 2023, the 28 percent AMT rate applies to excess AMTI of $220,700 for all taxpayers ($110,350 for married couples filing separate returns).

In 2023, the exemption will start phasing out at $578,150 in AMTI for single filers and $1,156,300 for married taxpayers filing jointly.

Elimination of Shared Responsibility Payment for Individuals Failing to Maintain Minimal Essential Coverage

The Tax Cuts and Jobs Act reduces the amount of the individual responsibility payment, enacted as part of the Affordable Care Act, to zero. The provision is effective with respect to health coverage status for months beginning after December 31, 2018.

Under the Patient Protection and Affordable Care Act, the individual adult annual dollar amount was set at $695 for 2017. In 2018, the penalty is $695 per adult and $347.50 per child for a maximum of $2,085 per family, or 2.5 percent of the household income, whichever is greater. The Health Insurance Penalty ends in 2019.

Other Provisions

Temporarily allow increased contributions to ABLE accounts, and allow contributions to be eligible for saver's credit

The Tax Cuts and Jobs Act temporarily increases the contribution limitation to ABLE accounts under certain circumstances. While the general overall limitation on contributions (the per-donee annual gift tax exclusion, or $17,000 for 2023) remains the same, the limitation is temporarily increased with respect to contributions made by the designated beneficiary of the ABLE account. Under the temporary provision, after the overall limitation on contributions is reached, an ABLE account's designated beneficiary may contribute an additional amount, up to the lesser of (a) the Federal poverty line for a one-person household; or (b) the individual's compensation for the taxable year. Additionally, the provision temporarily allows a designated beneficiary of an ABLE account to claim the saver's credit for contributions made to his or her ABLE account.

Extension of time limit for contesting IRS levy

The Tax Cuts and Jobs Act extends from nine months to two years the period for returning the monetary proceeds from the sale of property that has been wrongfully levied upon. The provision also extends from nine months to two years the period for bringing a civil action for wrongful levy.

The provision is effective with respect to:

(1) levies made after the date of enactment; and

(2) levies made on or before the date of enactment provided that the nine-month period has not expired as of the date of enactment.

Treatment of certain individuals performing services in the Sinai Peninsula of Egypt

The Tax Cuts and Jobs Act grants combat zone tax benefits to the Sinai Peninsula of Egypt, if as of the date of enactment of the provision any member of the Armed Forces of the United States is entitled to special pay under section 310 of title 37, United States Code (relating to special pay; duty subject to hostile fire or imminent danger), for services performed in such location. This benefit lasts only during the period such entitlement is in effect but not later than taxable years beginning before January 1, 2026.

The provision is generally effective beginning June 9, 2015. The portion of the provision related to wage withholding applies to remuneration paid after the date of enactment.

Modifications of user fees requirements for installment agreements

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not implement any modifications of user fees requirements for installment agreements.

Relief for 2016 disaster areas

The Tax Cuts and Jobs Act provides tax relief, as described below, relating to a "2016 disaster area," defined as any area with respect to which a major disaster was declared by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act during calendar year 2016.

Under the provision, an exception to the 10-percent early withdrawal tax applies in the case of a qualified 2016 disaster distribution from a qualified retirement plan, a section 403(b) plan, or an IRA. In addition, as discussed further, income attributable to a qualified 2016 disaster distribution may be included in income ratably over three years, and the amount of a qualified 2016 disaster distribution may be recontributed to an eligible retirement plan within three years.

A qualified 2016 disaster distribution is a distribution from an eligible retirement plan made after December 31, 2015 and before January 1, 2018, to an individual whose principal place of abode at any time during the calendar year 2016 was located in a 2016 disaster area and who has sustained an economic loss by reason of the events giving rise to the Presidential disaster declaration. The total amount of distributions to an individual from all eligible retirement plans that may be treated as qualified 2016 disaster distributions is $100,000. Thus, any distributions in excess of $100,000 during the applicable period are not considered qualified 2016 disaster distributions.

Modification of rules related to casualty losses

Under the provision, in the case of a personal casualty loss which arose on or after January 1, 2016, in a 2016 disaster area and was attributable to the events giving rise to the Presidential disaster declaration, such losses are deductible without regard to whether aggregate net losses exceed ten percent of a taxpayer's adjusted gross income.

Under the provision, in order to be deductible, the losses must exceed $500 per casualty. Additionally, such losses may be claimed in addition to the standard deduction.

Attorneys’ fees relating to awards to whistleblowers

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not implement any changes for attorneys’ fees relating to awards to whistleblowers.

Clarification of whistleblower awards

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not implement any clarification of whistleblower awards.

Exclusion from gross income of certain amounts received by wrongly incarcerated individuals

This section of the IRC was meant to be altered by The Tax Cuts and Jobs Act of 2018, but this portion was not included in the final draft of the bill (H.R.1).

The Tax Cuts and Jobs Act did not grant an exclusion from gross income of certain amounts received by wrongly incarcerated individuals.