What Taxpayers Need to Know about the Proposed Federal Tax Plan - Part 1 of An ACCESS Special Report

November 7, 2017 - There is a lot of information coming out about the tax plan rolled out last week and how it will impact taxpayers and their families. For businesses, the plan is promising. But for individuals, it's a mixed bag as noted by the Wall Street Journal's editorial board. They wrote, "House Republicans released their tax bill at long last Thursday, and we wish we could say it repeats the Reagan reform of 1986. It isnâ€™t close. The Ways and Means draft is instead a much-needed and pro-growth reform of business taxes marred by a mess on individual taxes that makes that part of the code even worse than it is now."

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The plan as initially envisioned by President Trump included significant spending cuts. The plan as structured by congress and released on Thursday contained virtually no spending cuts. It also took a hatchet to tax deductions used by millions of middle class Americans; the very people the plan is supposed to help. As written, it would hurt the elderly, those with larger families, people with serious health issues and homeowners.

The goal of the bill is to simplify taxes for everyone and to significantly cut business taxes to help jump-start the economy. There is no doubt that business taxes in the United States need to be restructured significantly. But in reading through this bill, it is apparent that to pay for the changes to business taxes, legislators have elected to transfer the burden to individual taxpayers and make no attempt to reign in spending.

The goal of this series of articles is to focus on how the proposed changes in the law will impact individuals rather than corporations. From this point forward, everything discussed here will have to do with individual taxes. In this first article, we'll explain the tax brackets proposed under the new plan and how the changes in the way dependents are handled will impact your income. We'll also cover the elimination of the student loan interest deduction. This first article is 100% applicable to anyone who doesn't itemizeâ€¦ which means most people.

In the next article, we'll cover some of the more common tax deductions that are being eliminated for people who do itemize. The third article will cover how the tax plan impacts home ownership - we can tell you that it isn't good. After that, we'll be doing a much more focused series on certain individual deductions and how their elimination will impact you. Here is Part 1.

Tax Brackets

There are currently seven different tax brackets for personal income tax. The proposed bill would reduce that number to four, but that really isn't true. In the initial plan, there is a fourth tax bracket which is hidden.
The tax brackets work out this way:

Annual Income	Marginal Tax Bracket
$0 - $45,000	12%
$45,001 - $200,000	25%
$200,001 - $500,000	35%
$500,001 +	39.6%

The hidden tax bracket phases in at $1 million of annual income and congress is trying to be sneaky about it. Instead of calling it a new bracket, it is a surcharge of 6% that covers approximately the next $200,000 earned. What legislators are attempting to do is reduce any benefits received from the new tax plan by people who make over $1 million annually to a net-zero. This is in essence a claw-back of benefits and makes the highest marginal tax rate under the plan 45.6%. In some state, that means some taxpayers will have marginal tax rates in excess of 60%... something which we havenâ€™t seen in this country for many years and which economists almost uniformly agree will hurt economic growth and the job market.

Standard Deductions and Exemptions

The new law would increase the standard deduction for individuals and couples by nearly doubling it. The current deduction is $6,350 for an individual and $12,700 for a couple. Under the new law, these would be $12,000 and $24,000 respectively. Anyone making less than the standard deduction amount would owe no taxes.

To pay for this change, congress wants to eliminate the current $4,050 exemption for each dependent claimed on your return. This change will benefit families with no more than two children but it will actually result in a tax increase for families with three or more children or for those caring for elderly parents and loved ones.

The CBO estimates that between these two changes, the government will collect an additional $500 Billion in taxes over a ten year period.
Student Loan Interest

The deduction for interest on student loans will be eliminated under the proposed law. Frankly, there are better ways that the government could handle student loan interest to provide some relief to borrowers. Since the vast majority of student loans are issued directly by the government, it would be a very simple matter to eliminate the deduction and reduce student loan interest rates at the same time, making the deduction unnecessary. Congress hasn't done that though. Americans owe nearly $1.5 Trillion for student loans and much has been written over the past few years on the negative impact of this debt to the overall economy. This proposal is likely to exacerbate those effects.

These changes are significant because you don't need to itemize your taxes to receive their benefits. That means they impact virtually everyone. Tomorrow, we'll focus on itemized deductions that are being changed or eliminated.

Read part 2

Read part 3
byJim Malmberg
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