

Review of the 2018 Law Change of the Standard Deduction and Exemptions

By: Lori Lemmer

In our prior Tax Tips emails we have reviewed the major changes affecting businesses and individuals with the new tax law. Now let's delve a bit deeper into a few of the specifics.

Every taxpayer has been allowed either a standard deduction or an itemized deduction; whichever one is the higher amount. The standard deduction as it states is just a flat deduction. The itemized deduction includes a portion of medical, charitable contributions, state and local taxes (non-business), home mortgage interest, and some other miscellaneous expenses. In the past each taxpayer was also allowed a personal exemption deduction for each person in their household. In addition to these deductions, the tax law also granted a maximum child tax credit of \$1,000 for each qualifying child under the age of 17. Note that a tax credit is NOT the same as a deduction. Depending on each unique situation, the credits may not be allowable on some returns. There are phase-out limits to this, but that would involve a much more in-depth discussion.

In 2017, the basic standard deduction dollar amounts were \$12,700 for joint filers and surviving spouses, \$9,350 for heads of household, and \$6,350 for singles or marrieds filing separately. The amount deductible for each personal exemption was \$4,050. So, for example, in 2017, a married couple with 2 children using the standard deduction and exemptions would have a total deduction of \$28,900 plus a possible total child tax credit of \$2,000.

Under the Tax Cuts and Jobs Act of 2017 (which is generally starting effective in 2018), the standard deduction is increased to \$24,000 for married individuals filing a joint return, \$18,000 for head-of-household filers, and \$12,000 for all other taxpayers. The new tax law eliminates the personal exemption amounts. In 2018, the child tax credit increases to \$2,000. So the same couple with 2 children in our previous example would now have a deduction of \$24,000 plus a possible total child tax credit of \$4,000.

As you can, see there isn't a whole lot of difference in this particular change, but note every taxpayer will and could have a completely different scenario based on numerous other aspects of the new law changes.

As we finish your 2017 taxes, we at Kaup's will be analyzing each client's unique situation and determining the best tax situation for each and every one of you going forward into 2018. Please note that this discussion is just a tip of the iceberg of the changes that will be coming.

As always, please contact us with any questions or concerns.

Thanks!

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