Some Background

How did the Tax Cuts and Jobs Act change personal taxes?

Q. How did the Tax Cuts and Jobs Act change personal taxes?

A. The Tax Cuts and Jobs Act made significant changes to individual income taxes and the estate tax. Almost all these provisions expire after 2025, while most business provisions are permanent.

The new tax law made substantial changes to the tax rates and the tax base for the individual income tax. The major provisions follow, excluding those that only affect business income.

TAX RATES AND TAX BRACKETS

The Tax Cuts and Jobs Act (TCJA) reduced statutory tax rates at almost all levels of taxable income and shifted the thresholds for several income tax brackets (table 1). As under prior law, the tax brackets are indexed for inflation but using a different inflation index (see below).

TABLE 1
Individual Income Tax Brackets and Rates
2018

Prior Law					Tax Cuts and Jobs Act				
Taxable Income ($)				Tax Rate (percent)	Taxable Income ($)				Tax Rate (percent)
Single Filers		Married Couples Filing Jointly			Single Filers		Married Couples Filing Jointly		
Over	But not over	Over	But not over		Over	But not over	Over	But not over	
0	9,525	0	19,050	10	0	9,525	0	19,050	10
9,525	38,700	19,050	77,400	15	9,525	38,700	19,050	77,400	12
38,700	93,700	77,400	156,150	25	38,700	82,500	77,400	165,000	22
93,700	195,450	156,150	237,950	28	82,500	157,500	165,000	315,000	24
195,450	424,950	237,950	424,950	33	157,500	200,000	315,000	400,000	32
424,950	426,700	424,950	480,050	35	200,000	500,000	400,000	600,000	35
426,700	and over	480,050	and over	39.6	500,000	and over	600,000	and over	37

Source: Gale et al. (2018)

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FAMILY BENEFITS (PERSONAL EXEMPTIONS, CHILD CREDIT)

TCJA repealed personal and dependent exemptions. In place of personal exemptions, TCJA increased the standard deduction, discussed below. In place of dependent exemptions, TCJA increased the child tax credit (CTC) and created a new $500 tax credit for dependents not eligible for the child tax credit (table 2).

TCJA expanded the CTC in several ways. It doubled the maximum per child credit amount from $1,000 to $2,000 starting in 2018. It also increased the refundable portion of the credit but limited the maximum refundable credit to $1,400 per child in 2018. The maximum refundable amount limit is indexed for inflation but the maximum total credit amount is not. Unlike prior law, TCJA limited eligibility for the credit to children who have a valid social security number.

TCJA extended the CTC to higher-income families by substantially increasing the income thresholds at which the credit phases out. As under prior law, the income phaseout thresholds are not indexed for inflation.

TCJA created a new nonrefundable $500 credit for other dependents, including children who are too old to be eligible for the CTC, full-time college students, other adult members of the household for whom the taxpayer provides significant financial support, and children who would otherwise be eligible for the $2,000 child tax credit but lack a valid social security number. The $500 amount is also not indexed for inflation.

TABLE 2
Family Benefits

Prior Law	Tax Cuts and Jobs Act
Personal and dependent exemptions	
$4,150; indexed for inflation	Repealed
Child tax credit	
$1,000 per qualifying child under 17; phases out at AGI above $75,000 (single), $110,000 (joint); refundable portion equals 15 percent of earnings in excess of $3,000	$2,000 per qualifying child under 17, $500 for other dependents; phases out at AGI above $200,000 (single), $400,000 (joint); refundable portion equals 15 percent of earnings in excess of $2,500 up to a maximum credit of $1,400 per qualifying child; maximum refundable portion indexed for inflation; requires valid social security number

Source: Gale et al. (2018)

AGI = adjusted gross income

STANDARD AND ITEMIZED DEDUCTIONS

TCJA nearly doubled the standard deduction (table 3). As before, the standard deduction amounts are indexed for inflation. The larger standard deductions will substantially reduce the number of taxpayers choosing to itemize their deductions.

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TCJA changed the structure of several major itemized deductions. Under prior law, itemizers could claim deductions for all state and local property taxes and the greater of income or sales taxes (subject to overall limits on itemized deductions). TCJA limited the itemized deduction for total state and local taxes to $10,000 annually, for both single and joint filers, and did not index that limit for inflation. As under prior law, taxpayers cannot claim a deduction for state and local taxes against the alternative minimum tax (AMT).

Under prior law, taxpayers could deduct interest on mortgage payments associated with the first $1 million of principal paid on debt incurred to purchase (or substantially renovate) a primary and secondary residence plus the first $100,000 in home equity debt. For taxpayers taking new mortgages after the effective date, TCJA limited the deductibility to the interest on the first $750,000 of loan principal and eliminated the deductibility of interest for home equity debt.

Previously, taxpayers could deduct out-of-pocket medical expenses (including costs for health insurance) above 10 percent of adjusted gross income (AGI). For 2017 and 2018, TCJA allowed deductions for out-of-pocket medical expenses above 7.5 percent of AGI. After 2018, the prior law 10 percent of AGI threshold applies.

TCJA repealed the phase-down of the amount of allowable itemized deductions (sometimes called the Pease provision). This limitation took effect at AGI above $266,700 for single filers and $320,000 for taxpayers filing joint returns.

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TABLE 3

Standard and Itemized Deductions

Prior Law	Tax Cuts and Jobs Act
Standard deduction	
$6,500 (single), $13,000 (joint), $9,550 (head of household); indexed for inflation	$12,000 (single), $24,000 (joint), $18,000 (head of household); indexed for inflation
State and local tax deduction	
Real estate, personal property, and either income or sales taxes are deductible	Real estate, personal property, and either income or sales taxes are deductible; total deduction capped at $10,000
Mortgage interest deduction	
Interest payments on up to $1.1 million of debt (including $100,000 of home equity debt) are deductible; applicable to principal and one other residence	Interest payments on up to $750,000 of new acquisition debt are deductible; applicable to principal and one other residence
Medical expense deduction	
Out-of-pocket medical expenses in excess of 10 percent of AGI are deductible	Out-of-pocket medical expenses in excess of 7.5 percent of AGI are deductible in 2017 and 2018; reverts to 10 percent of AGI in 2019
Overall limit on itemized deductions	
Itemized deduction phases out at AGI above $266,700 (single), $320,000 (joint); amounts indexed for inflation	Repealed

Source: Gale et al. (2018)

AGI = adjusted gross income

CAPITAL GAINS, DIVIDENDS, AND THE ALTERNATIVE MINIMUM TAX

TCJA retained the preferential tax rates on long-term capital gains and qualified dividends and the 3.8 percent net investment income tax (NIIT). The NIIT applies to interest, dividends, short- and long-term capital gains, rents and royalties, and passive business income. TCJA separated the tax-rate thresholds for capital gains and dividend income from the tax brackets for ordinary income for taxpayers with higher incomes (table 4).

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TCJA retained the individual AMT but raised the exemption levels and raised the income threshold at which the AMT exemption phases out, which will significantly reduce the number of taxpayers subject to the AMT. The exemption amounts and phaseout thresholds continue to be indexed for inflation.

TABLE 4

Capital Gains, Dividends, and the Alternative Minimum Tax

Prior Law	Tax Cuts and Jobs Act
Tax rate on capital gains and qualified dividends	
Zero rate for taxpayers below the 25 percent tax bracket; 15 percent rate for taxpayers in the 25 to 35 tax brackets; 20 percent rate for taxpayers above the 35 percent tax bracket; 3.8 percent NIIT at AGI above $200,000 (single), $250,000 (joint)	Zero rate if taxable income is below $38,600 (single), $77,200 (joint); 15 percent rate if taxable income is between $38,600 and $425,800 (single) $77,200 and $479,000 (joint); indexed for inflation; 3.8 percent NIIT at AGI above $200,000 (single), $250,000 (joint)
Individual Alternative Minimum Tax	
AMT exemption equal to $55,400 (single), $86,200 (joint); phases out at AGI above $123,100 (single), $164,100 (joint); indexed for inflation	AMT exemption equal to $70,300 (single), $109,400 (joint); phases out at AGI above $500,000 (single), $1,000,000 (joint); indexed for inflation

Source: Gale et al. (2018)

AGI = adjusted gross income, AMT = alternative minimum tax, NIIT = net investment income tax

ESTATE TAX

TCJA doubled the estate tax exemption to $11.2 million for single filers and to $22.4 million for couples, and continued to index the exemption levels for inflation (table 5). The top estate tax rate remains at 40 percent.

TABLE 5

Estate Tax

Prior Law	Tax Cuts and Jobs Act
Top rate of 40 percent on estates above $5.6 million (single), $11.2 million (joint); indexed for inflation	Top rate or 40 percent on estates above $11.2 million (single), $22.4 million (joint); indexed for inflation

Source: Gale et al. (2018)

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AFFORDABLE CARE ACT PENALTY TAX

Starting in 2019, TCJA set the Affordable Care Act's (ACA's) individual mandate penalty tax to zero. Previously, households without qualifying health insurance were required to pay a penalty equal to the lesser of 2.5 percent of household income or $695 per adult and $347.50 per child, up to a maximum of $2,085. Under the new law, individuals who do not enroll in adequate health insurance plans will not face a penalty starting in 2019. Because fewer people will obtain free or subsidized coverage in the absence of the penalty tax, and the reduced costs of ACA premium tax credits and other subsidies and Medicaid benefits will far exceed the lost revenue from setting the penalty tax rate to zero, the net effect will be to reduce the federal budget deficit. This provision does not sunset.

INFLATION INDEXING

TCJA changed the measure used for inflation indexing, from the Consumer Price Index for All Urban Consumers (CPI-U) to the chained CPI-U. The chained CPI-U more accurately measures changes in consumer welfare resulting from price changes because it accounts for people finding substitutes for goods whose prices increase faster than others. The chained CPI-U thus generally increases at a slower rate than the traditional CPI-U, implying that individuals will end up in higher tax brackets and that indexed tax credits (like the earned income tax credit) will increase at slower rates than they would have under the old indexing system. The change in indexing is permanent.

SUNSETS

A notable feature of the individual tax and the estate tax provisions is that all of them expire after 2025, except the reduction of the ACA penalty tax, the change in inflation indexing, and several changes in the tax base for business income. Some provisions expire sooner (for example the increased deductibility of medical expenses applies only to tax years 2017 and 2018). In contrast, many of the business tax provisions do not sunset. Congress chose to make the individual provisions temporary to limit the revenue cost of the TCJA to a level consistent with the overall constraint on the 10-year revenue loss in the Congressional Budget Resolution and to comply with Senate budget rules under the process used to pass the tax act that require no increase in the federal budget deficit after the tenth year.

Updated May 2020

Data Sources

Congressional Budget Office, "Cost Estimate for the Conference Agreement on H.R. 1, a Bill to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018," memo, December 15, 2017.

Joint Committee on Taxation. 2017. "Estimated Budget Effects of the Conference Agreement for H.R. 1, The 'Tax Cuts and Jobs Act." JCX-67-17.

Further Reading

Gale, William G., Hilary Gelfond, Aaron Krupkin, Mark J. Mazur, and Eric Toder. 2018. "Effects of the Tax Cuts and Jobs Act: A Preliminary Analysis." Washington, DC: Urban-Brookings Tax Policy Center.

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