CORDASCO
& COMPANY P.C.
Certified Public Accountants

TAXES AND RETURNS

¶105 Reduction in Individual Income Tax Rates

NEW LAW EXPLAINED

Temporary modification of income tax rates.—The new law replaces the individual income tax rate structure with a new rate structure, beginning after December 31, 2017, and before January 1, 2026, as follows (Code Sec. 1(j)(1) and (2), as added by the Tax Cuts and Jobs Act:

SINGLE TAXPAYERS

FOR TAX YEARS BEGINNING IN 2018

If taxable income is:				
Over—	***but not over—***	***The tax is:***		***of the amount over—***
$ 0	$9,525	10%		$0
9,525	38,700	$952.50 + 12%		9,525
38,700	82,500	4,453.50 + 22%		38,700
82,500	157,500	14,089.50 + 24%		82,500
157,500	200,000	32,089.50 + 32%		157,500
200,000	500,000	45,689.50 + 35%		200,000
500,000		150,689.50 + 37%		500,000

MARRIED INDIVIDUALS FILING SEPARATE RETURNS

FOR TAX YEARS BEGINNING IN 2018

If taxable income is:				
Over—	***but not over—***	***The tax is:***		***of the amount over—***
$ 0	$9,525	10%		$0
9,525	38,700	$952.50 + 12%		9,525
38,700	82,500	4,453.50 + 22%		38,700
82,500	157,500	14,089.50 + 24%		82,500
157,500	200,000	32,089.50 + 32%		157,500
200,000	300,000	45,689.50 + 35%		200,000
300,000		80,689.50 + 37%		300,000

MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES

FOR TAX YEARS BEGINNING IN 2018

If taxable income is:				
Over—	***but not over—***	***The tax is:***		***of the amount over—***
$ 0	$19,050	10%		$0
19,050	77,400	$1,905 + 12%		19,050
77,400	165,000	8,907 + 22%		77,400
165,000	315,000	28,179 + 24%		165,000
315,000	400,000	64,179 + 32%		315,000
400,000	600,000	91,379 + 35%		400,000
600,000		161,379 + 37%		600,000

HEADS OF HOUSEHOLD

FOR TAX YEARS BEGINNING IN 2018

If taxable income is:				
Over—	***but not over—***	***The tax is:***		***of the amount over—***
$ 0	$13,600	10%		$0
13,600	51,800	$1,360.00 + 12%		13,600
51,800	82,500	5,944 + 22%		51,800
82,500	157,500	12,698 + 24%		82,500
157,500	200,000	30,698 + 32%		157,500
200,000	500,000	44,298 + 35%		200,000
500,000		149,298 + 37%		500,000

ESTATES AND TRUSTS

FOR TAX YEARS BEGINNING IN 2018

If taxable income is:				
Over—	***but not over—***	***The tax is:***		***of the amount over—***
$ 0	2,550	10%		$0
2,550	9,150	$255 + 24%		2,550
9,150	12,500	1,839 + 35%		9,150
12,500		3,011.50 + 37%		12,500

For tax years beginning after December 31, 2018, the bracket thresholds are to be annually adjusted for inflation (Code Sec. 1(j)(3), as added by the 2017 Tax Cuts Act).

Simplification of kiddie tax. Effective for tax years beginning after December 31, 2017, and before January 1, 2026, the new law simplifies the "kiddie tax" by effectively applying ordinary and capital gains rates applicable to trusts and estates to the net unearned income of a child (Code Sec. 1(j)(4), as added by the 2017 Tax Cuts Act). As a result, taxable income attributable to earned income is taxed, as under prior law, according to a single individual's tax brackets and rates. Taxable income attributable to net unearned income is taxed according to the brackets applicable to trusts and estates, with respect to both ordinary income and income taxed at preferential rates.

> **COMMENT**
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> A child's "kiddie tax" is no longer affected by the tax situation of his or her parent or the unearned income of any siblings.

Maximum rates on capital gains. The new law generally retains the prior-law maximum rates on net capital gain and qualified dividends. The breakpoints between the zero- and 15-percent rates ("15-percent breakpoint") and the 15- and 20-percent rates ("20-percent breakpoint") are the same amounts as the breakpoints under prior law, except the breakpoints are indexed using the C-CPI-U (see ¶125) in tax years beginning after 2018) (Code Sec. 1(j)(5)(A) and (C), as added by the 2017 Tax Cuts Act). Thus, for 2018, the 15-percent breakpoint is $77,200 for joint returns and surviving spouses (one-half of this amount ($38,600) for married taxpayers filing separately), $51,700 for heads of household, $2,600 for estates and trusts, and $38,600 for other unmarried individuals. The 20-percent breakpoint is $479,000 for joint returns and surviving spouses (one-half of this amount for married taxpayers filing separately), $452,400 for heads of household, $12,700 for estates and trusts, and $425,800 for other unmarried individuals (Code Sec. 1(j)(5)(B), as added by the 2017 Tax Cuts Act).

Therefore, in the case of an individual (including an estate or trust) with adjusted net capital gain, to the extent the gain would not result in taxable income exceeding the 15-percent breakpoint, such gain is not taxed. Any adjusted net capital gain that would result in taxable income exceeding the 15-percent breakpoint but not exceeding the 20-percent breakpoint is taxed at 15 percent. The remaining adjusted net capital gain is taxed at 20 percent.

> **COMMENT**
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> As under prior law, unrecaptured section 1250 gain generally is taxed at a maximum rate of 25 percent, and 28-percent rate gain is taxed at a maximum rate of 28 percent.

Effective date. The amendments made by this section apply to tax years beginning after December 31, 2017 (Act Sec. 11001(c) of the Tax Cuts and Jobs Act.