Personal exemptions and standard deductions and tax credits, oh my!

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Under the Tax Cuts and Jobs Act ("TCJA"), individual income tax rates generally go down for 2018 through 2025. But that doesn't necessarily mean your income tax liability will go down. The TCJA also makes a lot of changes to tax breaks for individuals, reducing or eliminating some while expanding others. The total impact of all of these changes is what will ultimately determine whether you see reduced taxes. One interrelated group of changes affecting many taxpayers are those to personal exemptions, standard deductions and the child credit.

Personal exemptions

For 2017, taxpayers can claim a personal exemption of $4,050 each for themselves, their spouses and any dependents. For families with children and/or other dependents, such as elderly parents, these exemptions can really add up.

For 2018 through 2025, the TCJA suspends personal exemptions. This will substantially increase taxable income for large families. However, enhancements to the standard deduction and child credit, combined with lower tax rates, might mitigate this increase.

Standard deduction

Taxpayers can choose to itemize certain deductions on Schedule A or take the standard deduction based on their filing status instead. Itemizing deductions when the total will be larger than the standard deduction saves tax, but it makes filing more complicated.

For 2017, the standard deductions are $6,350 for singles and separate filers, $9,350 for head of household filers, and $12,700 for married couples filing jointly.

The TCJA nearly doubles the standard deductions for 2018 to $12,000 for singles and separate filers, $18,000 for heads of households, and $24,000 for joint filers. (These amounts will be adjusted for inflation for 2019 through 2025.)

For some taxpayers, the increased standard deduction could compensate for the elimination of the exemptions, and perhaps even provide some additional tax savings. But for those with many dependents or who itemize deductions, these changes might result in a higher tax bill — depending in part on the extent to which they can benefit from enhancements to the child credit.

Child credit

Credits can be more powerful than exemptions and deductions because they reduce taxes dollar-for-dollar, rather than just reducing the amount of income subject to tax. For 2018 through 2025, the TCJA doubles the child credit to $2,000 per child under age 17.

The new law also makes the child credit available to more families than in the past. For 2018 through 2025, the credit doesn't begin to phase out until adjusted gross income exceeds $400,000 for joint filers or $200,000 for all other filers, compared with the 2017 phaseout thresholds of $110,000 and $75,000, respectively.

The TCJA also includes, for 2018 through 2025, a $500 credit for qualifying dependents other than qualifying children.

Tip of the iceberg

Many factors will influence the impact of the TCJA on your tax liability for 2018 and beyond. And what's discussed here is just the tip of the iceberg. For example, the TCJA also makes many changes to itemized deductions. For help assessing the impact on your tax situation, please contact us.

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