1. Tax brackets will change.

The final tax bill keeps seven tax brackets but changes the tax rates, which shifts income into lower brackets. The long-term capital gains tax rates remain essentially unchanged, and short-term capital gains will be taxed at the adjusted ordinary income tax rates.

The impact of the changes would vary based on each taxpayer's income level, amount of itemized deductions and other factors.

Current ordinary income tax brackets compared with brackets in the final tax bill for tax year 2018.

Ordinary Income Tax Brackets for 2018
Current Tax Law vs. Final Tax Bill
(Single Filers)

Current Law		Final Tax Bill	
Income Level	Tax Rate	Income Level	Tax Rate
Over $426,700	39.6%	Over $500,000	37%
$424,950	35%	$200,000	35%
$195,450	33%	$157,500	32%
$93,700	28%	$82,500	24%
$38,700	25%	$38,700	22%
$9,525	15%	$9,525	12%
$1	10%	$1	10%

Taxable Income

Ordinary Income Tax Brackets for 2018
Current Tax Law vs. Final Tax Bill
(Married / Joint Filers)

Current Law		Final Tax Bill	
Income Level	Tax Rate	Income Level	Tax Rate
Over $480,050	39.6%	Over $600,000	37%
$424,950	35%	$400,000	35%
$237,950	33%	$315,000	32%
$156,150	28%	$165,000	24%
$77,400	25%	77,400	22%
$19,050	15%	$19,050	12%
$1	10%	$1	10%

Taxable Income

2. The standard deduction will increase.

The final tax bill nearly doubles the standard deduction, to $12,000 from $6,350 for single filers, and to $24,000 from $12,700 for married filers. About 70% of taxpayers claim the standard deduction, so most taxpayers claiming this deduction likely will benefit from this proposal.

If you're a low- or middle-income household, an increased standard deduction combined with an increased child tax credit should lower your tax bill.

3. Some itemized deductions are being reduced or eliminated.

The final tax bill reduces or eliminates many itemized deductions in favor of a higher standard deduction.

The itemized deductions that will be reduced or eliminated include:

- State, local, and property taxes will be limited to a $10,000 deduction.
- Mortgage interest deduction will limited to $750,000 of indebtedness.
- Miscellaneous itemized deductions will be eliminated.

Here are the itemized deductions that will remain:

- Medical expenses: The final tax bill preserves the deduction for medical expenses and temporarily reduces the limitation from 10% to 7.5% of adjusted gross income for tax years 2017 and 2018. Beginning in 2019, only medical expenses that exceed 10% of adjusted gross income are deductible.
- Charitable donations: The final bill preserves all the major charitable donation deductions, with the exception of few specific deductions (such as the deduction for payments made in exchange for college athletic event seats).

All else being equal, if you're in a high-income household in a high-tax state, with a mortgage and high property taxes, these changes could end up increasing your tax liability. However, if you don't normally itemize your deductions these changes won't be an issue, and the increased standard deduction should end up benefiting you.

4. The child tax credit will increase.

The final tax bill increased the child tax credit to $2,000 from $1,000, and the income level of households eligible for the credit. The tax credit is fully refundable up to $1,400, and begins to phase out for married/joint filers at income of $400,000 and for single filers at $200,000.

Tax credits are generally better than tax deductions, because credits reduce your taxes dollar-for-dollar, while deductions only lower your taxable income. This change would benefit low- and middle-income households with children.

5. The personal exemption and dependent deduction will be eliminated.

The final tax bill eliminates the $4,050 personal exemption and dependent deduction. When combined with the increased standard deduction and increased child tax credit, lower- and middle-income households should see a net benefit despite the elimination of these deductions.

However, higher-income taxpayers could see an increased tax bill from this proposal if they have large families and don't qualify for the child tax credit, because of the income phase-outs within the tax bill.

6. The alternative minimum tax (AMT) will be changed but *not* eliminated.

The final tax bill increases both the exemption amount and the exemption amount phase-out thresholds for the individual AMT. Beginning in 2018 and ending in 2025, the AMT exemption amount is increased to $109,400 for married taxpayers filing a joint return and $70,300 for all other taxpayers. The phase-out thresholds are increased to $1 million for married taxpayers filing a joint return, and $500,000 for all other taxpayers.

These changes should benefit many middle- and high-income households that were previously affected by this tax.

7. Treatment and calculation of cost basis on investment sales remains unchanged.

The Senate tax bill had a provision in it that would have required investors to use the "first-in, first-out" (FIFO) method to calculate cost basis for investment sales. Investors can breathe a sigh of relief, as this provision is not included in the final tax bill.

8. Changes to the taxation of income from pass-through entities.

This is a complex area of tax law, and the tax bill includes numerous changes to the taxation of income from pass-through entities such as S corporations, limited-liability corporations and partnerships. In general, the tax bill allows businesses to exclude 20% of their net income from taxation with certain limitations. The deduction would be disallowed for specified service trades—such as lawyers, doctors and accountants—or businesses with income above a threshold.

Overall the changes to the taxation of pass-through entities will be beneficial to many business owners, but a lot of service businesses won't get to enjoy all the benefits of these changes.

9. The corporate tax rate will decline.

The final tax bill reduces the corporate tax rate to 21% from 35%. Lowering the corporate tax rate will increase the profits of many companies, which could provide additional capital for business expansion, increase dividends to shareholders and make the U.S. a more attractive place for foreign businesses to open operations.

10. There will be no changes to tax-deferred retirement accounts

Early on in the tax debate, it was rumored that Republicans considered changes to the deductions taxpayers receive for contributing to tax-deferred retirement accounts, such as IRAs or 401(k) retirement plans. The proposal was not included in the final tax bill.

Source: Charles Schwab. Tax Reform ~ What Investors Should Know