ELDERCOUNSELOR

A newsletter for professionals serving seniors and those who love them.

How Will Tax Reform Impact Seniors and Persons with Disabilities?

The Tax Cut and Jobs Act (TCJA) is now officially law. Both the House and Senate passed the new tax reform bill in December with straight party-line votes and no support from Democrats. President Trump signed it into law right before Christmas. It is the first overhaul of the tax code in more than 30 years.

In this issue of *The Elder Counselor*, we will mostly look at how this tax law is likely to impact seniors and persons with disabilities.

It's Good News for Most Americans

Retirees, most of whom are on relatively fixed incomes, are probably the most concerned about what the new tax law will mean for them. But, generally, they will be less affected than others because the changes do not affect how Social Security and investment income are taxed. In fact, many will benefit from the doubling of the standard deduction and, with the new individual tax bracets and rates, will be paying less in taxes when they file their tax returns in April, 2019. (Most of the changes will apply to 2018 income, not 2017 income.)

Key Individual Provisions to Know

Here are main provisions in the tax law that could particularly affect retirees and persons with disabilities. These individual provisions are set to expire at the end of 2025 so Congress will need to act before then if they are to continue.

(Mostly) Lower Individual Income Tax Rates and Brackets

There are still seven individual tax brackets and rates, but most are lower. Current rates are 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. Here are the new rates and how much income will apply to each:

Rate	*Individuals*	*Married, filing jointly*
10%	Up to $9,525	Up to $19,050
12%	$9,526 to $38,700	$19,051 to $77,400
22%	$38,701 to $82,500	$77,401 to $165,000
24%	$82,501 to $157,500	$165,001 to $315,000
32%	$157,501 to $200,000	$315,001 to $400,000
35%	$200,001 to $500,000	$400,001 to $600,000
37%	$500,001 and over	$600,001 and over

Standard Deduction is Almost Doubled

For single filers, the standard deduction is increased from $6,350 to $12,000. For married couples filing jointly, it increases from $12,700 to $24,000. Under the new law, fewer filers would choose to itemize, as the only reason to continue to itemize is if deductions exceed the standard deduction.

Personal and Elderly Exemptions

Currently, you can claim a $4,050 personal exemption for yourself, your spouse and each dependent, which lowers your taxable income and resulting taxes. The new law eliminates these personal exemptions, replacing them with the increased standard deduction.

The blind and elderly deduction has been retained in the new law. People age 65 and over (or blind) can claim an additional $1,550 deduction if they file as single or head-of-household. Married couples filing jointly can claim $1,250 if one meets the requirement and $2,500 if both do.

Medical Expenses Deduction

Currently, people with high medical expenses can deduct the portion of those expenses that exceeds 10% of their income. For example, a couple with $50,000 in income and $10,000 in medical expenses can deduct $5,000 of those medical expenses.

The new law increases this to medical expenses that exceed 7.5% of income. In the example above, the couple would be able to deduct $6,250 of their expenses. *Note that this part of the new law applies to medical expenses for 2017 and 2018.*

State and Local Tax (SALT) Deduction

The amount you pay in state and local property taxes, income and sales taxes can be deducted from your Federal income taxes—and the amount you can currently deduct is unlimited. The new law limits the deduction for these local and state taxes to $10,000.

Residents in the vast majority of counties in the U.S. claim an average SALT deduction below $10,000. Most low- and middle-income families who currently itemize because of their SALT deduction will likely take the much higher standard deduction unless their total itemized deductions (including SALT) are more than $12,000 if single and $24,000 if married filing jointly.

Originally lawmakers in the House and Senate wanted to repeal SALT entirely, to help pay for the tax cuts, but lawmakers in high-tax states (specifically CA, IL, NY and NJ) fought to keep it in. Those in higher income households in high-tax states will benefit from the SALT deduction.

Lower Cap on Mortgage Interest Deduction

Currently, if you take out a new mortgage on a first or second home, you can deduct the interest on up to $1 million of debt. The new law puts the cap at $750,000 of debt. (If you already have a mortgage, you would not be affected.) The new law also eliminates the deduction for interest on home equity loans, which is currently allowed on loans up to $100,000.

Temporary Credit for Non-Child Dependents

Under the new law, parents will be able to take a $500 credit for each non-child dependent they are supporting. This would include a child age 17 or older, an ailing elderly parent or an adult child with a disability. It is temporary because it is set to expire at the end of 2025 along with the other individual provisions.

Higher Exemptions for Alternative Minimum Tax (AMT)

The AMT was created almost 50 years ago to prevent the very rich from taking so many deductions that they paid no income taxes. It requires high-income earners to run their numbers twice (under regular tax rules and under the stricter AMT rules) and pay the higher amount in taxes. But because the AMT wasn't tied to inflation, it has gradually been affecting a growing number of middle-class earners. The new tax law reduces the number of filers who would be affected by the AMT by increasing the current income exemption levels for individuals from $54,300 to $70,300 and for married couples from $84,500 to $109,400.

Federal Estate Tax Exemptions Doubled

The new law does not repeal the Federal estate tax, but it eliminates it for almost everyone by doubling the estate tax exemption to $11.2 million for individuals and $22.4 million for married couples. Amounts over these exemptions will be taxed at 40%. The new rates are effective starting January 1, 2018 through December 31, 2025.

Eliminates Individual Mandate to Buy Health Insurance

With the elimination of the individual mandate to purchase health insurance, there will no longer be a penalty for not buying insurance. This is expected to help offset the cost of the tax bill and save money by reducing the amount the federal government spends on insurance subsidies and Medicaid.

The Congressional Budget Office expects that fewer consumers who qualify for subsidies are expected to enroll on Obama Care exchanges and fewer people who are eligible for Medicaid will seek coverage and learn they can sign up for the program. (Estimates of those who are expected to have no health insurance by 2027 are all over the place, ranging from 3-5 million to 13 million.)

Critics, including AARP, claim that eliminating the individual mandate will drive up health care premiums, result in more uninsured Americans and add $1.46 trillion to the deficit over the next ten years, which could trigger automatic spending cuts to Medicare, Medicaid, and other entitlement programs unless Congress votes to stop them.

Some claim the individual mandate helps to encourage younger and healthier Americans to sign up for coverage. Without it, the individual market might lean more toward sicker and older consumers, which might lead some insurers to drop out of the market. 29% of current enrollees on the federal exchange already have only one option in 2018. Others maintain that the mandate is not a key driver for obtaining insurance. About 4 million taxpayers paid the penalty in 2016.

Inflation Adjustments Slowed

The new tax law uses “chained CPI” to measure inflation, which is a slower measure than that currently used. This means that deductions, credits and exemptions will be worth less over time because the inflation-adjusted dollars that determine eligibility and maximum value would grow more slowly. It would also subject more of your income to higher rates in the future.

529 Plans Expanded

529 plans have been a tax-advantaged way to save for college costs. The new tax law expands the use of tax-free distributions from these plans, including paying for elementary and secondary school expenses for private, public and religious school, as well as some home schooling expenses. Educational therapies for children with disabilities are also included. There is a $10,000 annual limit per student.

ABLE Accounts Adjusted

ABLE accounts, established under Section 529A of the Internal Revenue Code, allow some individuals with disabilities to retain higher amounts of savings without losing their Social Security and Medicaid benefits. The new tax law allows money in a 529 education plan to be rolled over to a 529A ABLE account, but rollovers may count toward the annual contribution limit for ABLE accounts ($15,000 in 2018). The new law also changes the rules on contributions to ABLE accounts by designated beneficiaries who have earned income from employment.

What to Watch

Expect some clarifications and strategies as the experts weigh in. There will also undoubtedly be some adjustments as the new tax bill goes into effect. Please don’t hesitate to reach out if you have questions about these new provisions and how they may impact you or those you work with.