Bowles Rice
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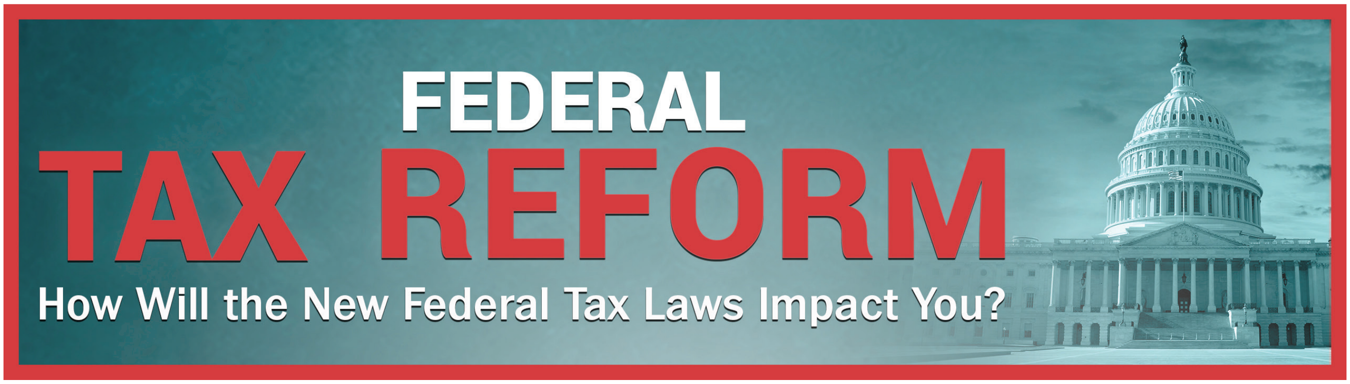
Important Information from the Bowles Rice Tax Team



Changes to Corporate and Individual Tax Rates and Brackets

Changes to the individual and corporate income tax rates will take effect beginning in 2018 under the major piece of tax legislation called the Tax Cuts and Jobs Act (TCJA).

Rate Changes for Individuals

Individuals are subject to income tax on “ordinary income,” such as compensation and most retirement and interest income, at increasing rates that apply to different ranges of income depending on their filing status (single; married filing jointly, including surviving spouse; married filing separately; and head of household). Currently those rates are 10%, 15%, 25%, 28%, 33%, 35% and 39.6%.

New Rates

Beginning with the 2018 tax year and continuing through 2025, there will still be seven tax brackets for individuals, but their percentage rates will change to: 10%, 12%, 22%, 24%, 32%, 35% and 37%. The following tables show the dollar ranges of these new brackets.

SINGLE INDIVIDUALS’ 2018 INCOME TAX RATES

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

MARRIED FILING JOINTLY AND SURVIVING SPOUSE 2018 INCOME TAX RATES

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

MARRIED FILING SEPARATE 2018 INCOME TAX RATES

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

HEAD OF HOUSEHOLD 2018 INCOME TAX RATES

If taxable income is:	The tax is:
Not over $13,600	10% of taxable income
Over $13,600 but not over $51,800	$1,360 plus 12% of the excess over $13,600
Over $51,800 but not over $82,500	$5,944 plus 22% of the excess over $51,800
Over $82,500 but not over $157,500	$12,698 plus 24% of the excess over $82,500
Over $157,500 but not over $200,000	$30,698 plus 32% of the excess over $157,500
Over $200,000 but not over $500,000	$44,298 plus 35% of the excess over $200,000
Over $500,000	$149,298 plus 37% of the excess over $500,000

The Bottom Line

While these changes will lower rates at many income levels, determining the overall impact on any particular individual or family will depend on a variety of other changes made by the Tax Cuts and Jobs Act, including increases in the standard deduction, loss of personal and dependency exemptions, a dollar limit on itemized deductions for state and local taxes and changes to the child tax credit and the taxation of a child's unearned income, known as the Kiddie Tax.

Capital Gain Rates

Three tax brackets currently apply to net capital gains, including certain kinds of dividends, of individuals and other noncorporate taxpayers: 0% for net capital gain that would be taxed at the 10% or 15% rate if it were ordinary income; 15% for gain that would be taxed above 15% and below 39.6% if it were ordinary income, or 20% for gain that would be taxed at the 39.6% ordinary income rate.

The TCJA, generally, keeps the existing rates and breakpoints on net capital gains and qualified dividends. For 2018, the 15% breakpoint is: $77,200 for joint returns and surviving spouses (half this amount for married taxpayers filing separately),

$51,700 for heads of household, and $38,600 for other unmarried individuals. The 20% breakpoint is $479,000 for joint returns and surviving spouses (half this amount for married taxpayers filing separately), $452,400 for heads of household, and $425,800 for any other individual (other than an estate or trust).

Important: These new tax rates will not affect your tax on the return you will soon file for 2017, however they will almost immediately affect the amount of your wage withholding and the amount, if any, of estimated tax that you may need to pay.

A related change is that the future annual indexing of the rate brackets (and many other tax amounts) for inflation, which helps to prevent "bracket creep" and the erosion of the value of a variety of deductions and credits due solely to inflation, will be done in a way that understates inflation more than the current method does. While it won't be very recognizable immediately, over the years this will push some additional income into higher brackets and reduce the value of many tax breaks.

Corporate Income Tax Rate Drop

C corporations currently are subject to graduated tax rates of 15% for taxable income up to $50,000, 25% (over $50,000 to $75,000), 34% (over $75,000 to $10,000,000), and 35% (over $10,000,000). Personal service corporations pay tax on their entire taxable income at the rate of 35%. The benefit of lower rate brackets was phased out at higher income levels. Beginning with the 2018 tax year, the TCJA makes the corporate tax rate a flat 21%. It also eliminates the corporate alternative minimum tax.

Questions?

Please contact a member of the Bowles Rice Tax Team if you wish to discuss how these or any of the many other changes in the TCJA could affect your particular tax situation, and the possible planning steps you might consider in response to them.

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