

Anchin Alert

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Individual Tax Rates, Brackets and AMT under the 2017 Tax Reform Act

The 2017 Tax Cuts and Jobs Act introduced some significant changes to the individual income tax structure. Individual income tax rate changes, bracket changes, and changes to the Alternative Minimum Tax (AMT) can impact your overall tax profile.

It is important to highlight that while early proposals of the bill were set to repeal the Alternative Minimum Tax, the Act maintains the AMT for individuals and fiduciary income taxpayers. The AMT was only repealed for corporations. The AMT exemption amounts for individuals have been increased to the following - \$109,400 for married taxpayers filing jointly or for surviving spouses, \$70,300 for single taxpayers and \$54,700 for married taxpayers filing separately. The phase-out of exemption amounts are; \$1,000,000 for married taxpayers filing jointly and surviving spouses, \$500,000 for single taxpayers and married taxpayers filing separately. These amounts will all be indexed for inflation.

The Act retains the current individual marginal tax bracket structure of seven rates but reduces the top rate to 37% from 39.6% under the pre-reform law. The new brackets will be adjusted for inflation. The chart below shows the comparison of rates and brackets for single and married taxpayers filing jointly. The tax rates have decreased and the income amounts at which you would be subject to a higher taxing bracket have increased. For example, taxpayers who are married filing jointly with taxable income of \$500,000 would be subject to income tax at the highest rate of 39.6% under 2017 rules. Under the Act, their marginal rate would only be 35%, which is not the highest tax rate. This is further illustrated in Chart #1 below.

Chart # 1

Ordinary Income Tax Brackets for 2018 Pre-reform Law vs. 2017 Tax Reform Act							
(Single)				(Married Filing Joint)			
Pre-reform		Tax Reform Act		Pre-reform		Tax Reform Act	
Taxable Income	Tax Rate	Taxable Income	Tax Rate	Taxable Income	Tax Rate	Taxable Income	Tax Rate
		Over \$500,000	37%	Over \$600,000	37%		
Over \$426,700	39.6%			Over \$480,050	39.6%		
\$424,950	35%			\$424,950	35%	\$400,000	35%
						\$315,000	32%
				\$237,950	33%	\$165,000	24%
\$195,450	33%	\$200,000	35%				
		\$157,500	32%	156,150	28%		
\$93,700	28%			\$77,400	25%	\$77,400	22%
		\$82,500	24%				
\$38,700	25%	\$38,700	22%	\$19,050	15%	\$19,050	12%
\$9,525	15%	\$9,525	12%				
\$1	10%	\$1	10%	\$1	10%	\$1	10%

The scenarios below compare the tax effect of pre-reform rates to the new tax rates for three different levels of income. The amounts computed are for a couple who is married filing jointly with no children, has ordinary income from wages, and is using the standard deduction. As Chart #2 clearly shows, the effective rates are reduced from 2017 to 2018 as a result of the new law.

Chart # 2

	\$100,000 Income		\$200,000 Income		\$500,000 Income	
	2017	2018	2017	2018	2017	2018
AGI	100,000	100,000	200,000	200,000	500,000	500,000
Standard Deduction	12,700	24,000	12,700	24,000	12,700	24,000
Personal Exemption	8,100	0	8,100	0	8,100	0
Taxable Income	79,200	76,000	179,200	176,000	487,300	476,000
Tax	11,284	8,739	37,061	30,819	140,452	120,229
Tax Savings		2,545		6,242		20,223
Effective Tax Rate	14%	11%	21%	18%	29%	25%

There are significant changes in allowable deductions (both for and from adjusted gross income), the repeal of personal exemptions, and increased AMT exemption and phase-out amounts. In most cases, the effect of the new tax rates and income brackets on a taxpayer's overall tax liability is not as simplistic as the illustrations above.

What does this all mean for you? Planning and projections are even more important as tax reform changes the tax picture for everyone. With proper planning, taxpayers can update their tax strategy and work to minimize unfavorable consequences.

Your Anchin partners are evaluating the impact of these changes. In the meantime, feel free to reach out to your Anchin Relationship Partner.



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