**Here’s a look at 21 issues that could affect you and your pocketbook—some of which seem to be done deals, others that are still up in the air. And note this: Many of the changes in the Senate bill would expire after 2025, and, unless a future Congress acts to extend them, the rules would revert to current law.**

**Every taxpayer needs to pay attention over the next few weeks.**

**I will update you on the new Tax Law once it gets approved!!!**

**1. Bigger Standard Deduction, Goodbye Exemptions**

**A hallmark of the House and Senate tax plans is to nearly double the standard deduction, which would not only make more income tax-free but also simplify the system. Congressional analysts say bulking up the standard deduction would let more than 30 million taxpayers avoid the hassle of itemizing write-offs on their tax return because the bigger standard deduction would exceed their qualifying expenses.**

**The House and Senate would raise the standard deduction to $12,000 on single returns, $18,000 for head-of-household filers and $24,000 on joint returns—up from $6,350, $9,350 and $12,700 now. As under present law, the Senate (but not the House) would also give a higher standard deduction to seniors (age 65 or older) and blind people.In exchange for the bigger standard deductions, the Senate and House bills get rid of the $4,050 deduction for each exemption claimed on the return. So a married couple with four kids would lose $24,300 in exemptions in exchange for the $11,300 boost in their standard deduction.**

**The House plan calls for squeezing the current system of seven income tax brackets down to just four brackets. Proponents say it simplifies the law, but few taxpayers actually use the brackets to figure their bill (they use software or, for those with taxable income less than $100,000, pick a number off a table). But where the new tax brackets start and end will have a lot to do with what you owe. The plan calls to replace the current 10% bracket with a 12% bracket. That might sound like a punishment for lower-income earners, but proponents say they’ll be okay because more of their income will be tax-free. At the other end of the scale, after much debate, House tax writers decided to leave the top rate at 39.6%, but that rate would kick in at a much higher taxable income level: $1 million, versus $470,700 on a joint return under today’s rules. On the joint return, taxing the $529,300 difference at 35% instead of at 39.6% would save the couple nearly $25,000. On the other hand, the House proposal would effectively create a fifth, 45.6% bracket for some high-income taxpayers. The goal is to claw back the benefit of having any of their income taxed at the 12% rate. The 6% surcharge would apply to taxable income starting at $1 million on individual returns and $1.2 million on joint returns. It would apply until the extra 6% levy offsets the amount of savings produced by having the first $45,000 on a single return or $90,000 on a joint returned taxed at 12% instead of 39.6%. After those savings are wiped out, the rate would fall back to 39.6%. The House also proposes new tax brackets for head of household filers as well as for married couples who opt to file separate returns.**

**2. Tax-Bracket Bingo: Senate Version**

**The Senate has very different ideas about tax brackets. Its plan would continue to have seven tax brackets, but with different rates and different break points. (The Senate plan does not include a bubble bracket.)  Not only would the Senate bill lower the top marginal rate, but like the House bill, the top rate would kick in at higher levels. Although reducing the number of rates is sometimes hailed as a way to simplify tax return preparation, in fact few taxpayers ever see these tax rate schedules. They either hire someone to do their return or use tax software that automatically determines their tax bill. And, for those who still use pen and paper and have taxable income under $100,000, only a single calculation is needed regardless of their top tax bracket.**

**The Senate also proposes new tax brackets for head-of-household filers, as well as for married couples who opt to file separate returns. Similar to the House proposal, the Senate would alter inflation indexing of various tax breaks, including the tax brackets. It’s a hidden tax hike that over time would nail nearly all individual filers. Currently, the federal income tax brackets, standard deductions and many other tax items are adjusted annually based on the government-calculated Consumer Price Index. Economists have argued that the now-used CPI tends to overstate actual inflation because the formula doesn’t account for how people change their spending patterns as prices rise. They claim that a “chained” index is a far better measure of inflation. A chained CPI would result in lower inflation adjustments than the current index. As a result, there would be smaller annual increases in tax brackets and other breaks.**

**3. Homeowners Lose Tax Breaks**

**The Senate bill would continue to allow homeowners to deduct the interest on up to $1 million of mortgage debt used to buy or improve a principal residence and a second home. But the Senate would eliminate the deduction of interest on up to $100,000 of debt. The House bill would limit the deduction of interest paid on new mortgages of $500,000 or less. In addition to repealing the deduction on home-equity lines of credit, the House would also prohibit homeowners from deducting mortgage interest on a second home.**

**Both the Senate and House bills would throw a curve ball at some homeowners planning to cash in on tax-free home sale profit. Currently, the law allows you to shelter up to $250,000 of such profit, or $500,000 if you’re married, as long as you have owned and lived in the house for two of the five years before the sale. The proposals making their way through Congress would stretch the ownership and occupancy requirements to five of the eight years leading up to the sale. In addition, the House bill would phase out the exclusion for single taxpayers with average modified adjusted gross income of more than $250,000, or $500,000 for married couples in the year of the sale and the two preceding tax years.**

**4. Deduction for State and Local Taxes**

**One of the most valuable tax deductions allowed for individuals—the write off for what they pay in state and local income, sales and property taxes—is on the block.**

**Originally, the Senate plan called for eliminating all of these deductions, but, in the end, it included a break for property taxes. The House’s plan wipes out the write-off of income and sales taxes, but allows the deduction of up to $10,000 a year in property taxes.**

**5. Casualty Losses**

**The Senate bill would eliminate deductions for casualty losses, unless the loss occurs in a presidentially declared disaster area. The House bill would scrap this deduction entirely, although it carves out an exemption for victims of hurricanes Harvey, Irma and Maria.**

**6. Estate Taxes R.I.P. (Sort of)**

**The House would increase the exemption from estate taxes — $5.49 million in 2017 — to $10 million and phase the tax out entirely by 2023. The Senate doubles the amount that can be passed to heirs tax-free to $11.2 million for an individual and $22.4 million for a married couple, but that plan does not drive a stake through the tax’s heart completely.**

**7. Medical Deductions in Jeopardy**

**The House bill calls for axing the itemized deduction for unreimbursed medical expenses that exceed 10% of a taxpayer’s adjusted gross income. The Senate would go the other way: retaining the write-off for two years and lowering the income threshold to 7.5%.**

**8. Divorce Gets Costlier**

**The Senate bill preserves a deduction for ex-spouses who pay alimony under a divorce decree.The House plan would get the tax law out of such financial arrangements. For any divorce decree executed (or altered) after the end of this year, alimony payments would be tax-free to the recipient, and the paying spouse would not get a deduction.**

**9. Double-or-Nothing for Teachers' Tax Break**

**The Senate bill would double the $250 tax deduction teachers can claim for using their own money to buy classroom supplies. The House bill would eliminate the deduction.**

**10. Changes to Commuter Benefits**

**Both the House and Senate would eliminate the rule that allows employers to deduct up to $260 a month per employee for the cost of transportation-related fringe benefits, such as parking and transit passes. Employees would be allowed to use pre-tax money to cover such expenses.**

**The Senate bill goes further, eliminating the federal bike commuter benefit that allows employers to provide employees up to $20 a month tax-free to cover bike-related expenses.**

**11. Say Hello to a Higher Child Tax Credit and a New Family Tax Credit**

**The Senate and House both propose to increase the amount of the child tax credit, as well as the income thresholds for qualifying for the credit. The House would hike the current $1,000 credit to $1,600 per child under the age of 17, and the Senate would increase it to $2,000 and change the qualifying age to 17 and younger.**

**In addition to the enhanced child tax credit, the House bill provides for a new, five-year credit of $300 for a taxpayer, spouse and nonchild dependents. The Senate would give a credit of $500 for each dependent who is not a child. These credits would disappear for high-income earners.**

**12. Tax Breaks for Students Could Be Erased**

**The House bill would abolish the $2,500 deduction for interest on student loans. The Senate bill would retain it. The Senate bill would also preserve the tax treatment of tuition benefits earned by graduate students. Currently, those benefits aren’t taxed as income. The House would tax those benefits.**

**13. A Reprieve for Dependent Care Plans**

**The Senate bill would continue to allow parents to put aside pre-tax money in dependent care flexible savings accounts for child care costs. The House bill at first abolished this tax break, but now says it will keep it until 2023.**

**14. No More Roth Do-Overs**

**Both the Senate and the House bill would make it more difficult to convert a traditional individual retirement account to a Roth. Currently, you can reverse a conversion—and eliminate the tax bill—as long as you recharacterize the conversion by the tax-filing date, including extensions, in the year in which you convert. The tax bill would repeal this provision.**

**15. Limiting Investor Control Over Tax on Capital Gains**

**The Senate bill would restrict the flexibility investors have to control the tax bill on their profits. Currently, investors who have purchased stock and mutual fund shares at different times and different prices are allowed to choose which shares to sell in order to produce the most favorable tax consequences. You can, for example, direct your broker to sell shares with a high tax basis (basically, what you paid for them) to limit the amount of profit you must report to the IRS or, if the shares have fallen in value, to maximize losses to offset other taxable gains. (Your gain or loss is the difference between your basis and the proceeds of the sale.)The Senate plan would eliminate the option to specifically identify which shares to sell and instead impose a first-in-first-out (FIFO) rule. The oldest shares would be assumed to be the first sold. Because it is assumed that the older shares likely have a lower tax basis, this change would trigger the realization of more profit sooner rather than later. Scorekeepers think that would boost investors’ tax bills by nearly $3 billion over 10 years. Although the FIFO rule would apply to stock holdings, mutual fund owners would continue to have the option of using the “average basis” method for determining gain or loss on the redemption of shares. That allows you to average the cost of all shares purchased over time.**

**16. 0% Capital Gains Rate Survives**

**Both the House and Senate bills retain the favorable tax treatment granted long-term capital gains and qualified dividends, imposing rates of 0%, 15%, 20% or 23.8%, depending on your total income.**

**Although it’s unclear exactly what the final tax brackets and rates will be, it appears that the income thresholds for the various rates would be the same as under current law, indexed for inflation in the future. That would mean, for example, that the 0% rate for long-term gains and qualified dividends would apply for taxpayers with taxable income under about $38,000 on individual returns and about $76,000 on joint returns.**

**17. Tax-Free Municipal Bonds Safe, Mostly**

**Although interest from most tax-free muni bonds would remain tax-free, the House bill would strip the exemption from newly issued private-activity bonds issued to finance projects including non-profit hospitals, airports and sport stadiums. Interest from such bonds is currently tax-free, except for taxpayers subject to the alternative minimum tax. Current bonds would maintain their tax exemption. The Senate bill does not include this change.**

**18. Like-Kind Exchanges Survive ... But Only for Real Estate**

**Generally, an exchange of property is a taxable transaction, just like a sale. But the law includes an exception when investment or business property is traded for similar property. Any gain that would be triggered by the sale of such property is deferred in the case of a like-kind exchange.**

**This break applies to assets such as real estate and tangible personal property such as heavy equipment and art work. Both the House and Senate bills would restrict its use in the future to like-kind exchanges of real estate, such as trading one rental property for another. It’s estimated that the change would cost affected taxpayers more than $30 billion over the next ten years.**

**19. Future of the AMT**

**Originally, both the Senate and the House bills  called for eliminating the alternative minimum tax, a parallel tax system developed more than 40 years ago to ensure that the very wealthy paid some tax.**

**Currently, taxpayers who may fall into the AMT zone have to calculate their taxes    twice to determine which system applies to them. In a last-minute change, though,        the Senate legislation was amended to retain the AMT, but limit the number of taxpayers ensnared by it.**

**20. Tax Relief for Passthrough Businesses**

**Regular corporations (sometimes referred to as “C corporations”) are now subject to a maximum federal income tax rate of 35%. Under the House and Senate bills, that rate would fall to 20%. Individuals who own pass-through entities—such as S corporations, partnerships and LLCs -- which pass their income to their owners for tax purposes, as well as sole proprietors who report income on Schedule C of their tax returns, would also get relief under the House and Senate proposals. They won’t get a 20% top rate, but they’ll generally be better off taxwise than they are now.**

**The proposed changes to the taxation of passthrough businesses are some of the most complex provisions in the tax bills. That’s in part because both the House and Senate versions contain lots of limitations and antiabuse rules. They’re needed to help prevent gaming of the tax system by some taxpayers trying to have income taxed at the lower passthrough rate rather than the higher individual income tax rate.**

**Details are still in flux and will be ironed out by House and Senate negotiators, but this is what we can tell you: At the end of the day, most individuals who are self-employed or own interests in partnerships, LLCs or S corporations will be paying less tax on their passthrough income than they do now.**

**21. Credits and Deductions (That Lots of People Take) on the Chopping Block**

**The Senate bill would eliminate a popular deduction for moving expenses. The deduction, which is available to itemizers and non-itemizers, allows you to deduct the cost of moving yourself and your household goods to a new area as long as it’s at least 50 miles from your old home. Members of the military would still be able to claim it. The House bill also scraps the deduction, with an exception for members of the military.**

**Both the Senate and House bills would repeal miscellaneous itemized deductions for tax preparation fees, unreimbursed business expenses, and investment fees.                                                        The Senate bill retains the credit for the elderly and the disabled, which can be worth up to $1,125 to qualifying low-income taxpayers and the credit for plug-in electric vehicles, which is worth of up $7,500. The House will would scrap both of these credits.**

**Regardless of your political leanings, all sides agree that a major tax overhaul is unavoidable.**

**Don't be caught unaware, or worse, unprepared.**