

# HOW COULD THE PROPOSED TAX REFORM AFFECT YOU?

President Trump announced his proposal for tax reform last month. Similar to the changes he was proposing last year while on the campaign trail, this plan is being promoted as a tax break for the middle class.

Hoping this might be true, we ran some analysis to see how the proposed changes would affect you, our clients. A typical Monotelo client is a married couple with one child making \$115,000 per year. Experts differ on how much you have to earn to fall into this camp, but a wider definition would simply exclude the poorest 20% and the wealthiest 20% of earners. If you accept the definition of the middle class as the "middle 60%," that would describe families making between \$50,000 and \$140,000 per year. So we feel that our typical client fits pretty well into the middle class.

Our analysis showed that the proposed changes would negatively impact 80% of our clients by causing a significant tax increase to our families. The average increase would be an additional \$2,300 in federal income taxes paid to the government. It should also be noted that we had to make a few assumptions to conduct the analysis, as various aspects of the plan have yet to be finalized.

## CHANGES AFFECTING OUR CLIENTS

So why is a proposal that is intended to lower taxes for the middle class actually raising them for our small cohort of taxpayers? We have highlighted a few of the proposed changes below:

### ITEMIZED DEDUCTIONS AND THE STANDARD DEDUCTION

One of the biggest promises of this plan is the nearly doubling of the standard deduction to \$12,000 for single filers and \$24,000 for married filers. While this means a bigger deduction for those who claim the standard deduction, the plan would hinder those who choose to itemize their deductions by eliminating the lions' share of these tax breaks, including deductions for state and local taxes, real estate taxes, and job-related expenses. This means that a majority of our clients will

now no longer be able to itemize and will instead need to rely on the standard deduction.

### EXEMPTIONS AND CHILD TAX CREDIT

The current tax code provides an additional deduction of \$4,050 for the filer, spouse, and each dependent listed on the return. This "Personal Exemption" deduction would be eliminated altogether under the proposed reform. To help mitigate the loss of this deduction, the proposal would increase the child tax credit from its current maximum of \$1000 per child. Although the exact amount of the increase has yet to be announced, most estimates predict an increase of \$500. While this would lessen the blow of the lost exemptions, it would not fully offset tax increase for most individuals.

### TAX BRACKETS

Currently there are 7 tax brackets, with 10% being the lowest and 39.6% being the highest. Under the proposed model the brackets would be simplified to 12%, 25% and 35%. While the income ranges for these new brackets have not been specified, it is likely that the 12% bracket would replace the current 10% and 15% brackets, with the 25% bracket being extended to a higher income range. These simplified brackets are unlikely to make a material difference for anyone currently at or below the 25% bracket. The largest difference for individuals in this range will be the changes to itemized deductions and personal exemptions.

## IT REMAINS TO BE SEEN

what aspects of this plan will actually become law, but in the meantime you should be aware of the possible ramifications if it goes through in its current form.

If the plan gets passed as it is currently proposed, we expect four cohorts of tax payers to be negatively impact:

- 1) Families with two or more children who own their home
- 2) Taxpayers who have a significant mortgage payment
- 3) Taxpayers in high income tax states like New York and California
- 4) Generous tax payers who give a meaningful portion of their income to charity

If you are in this category, then tax planning may be a necessary component of your future plans...