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personal exemption and the standard deduction.

Sep. 19, 2017



[Note: [Congress released a proposed tax reform plan on Nov. 2, 2017](#). Read about the potential changes to tax deductions and brackets that reform package will bring if it is enacted into law.]

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role in determining tax bracket and other ceiling amounts, even while tax rates and similar variables may change.

## **Inflation Adjustments – Background**

Since the late 1980s, the U.S. Tax Code has required that federal income tax brackets be adjusted for inflation annually, and inflation adjustments have been inserted into the Internal Revenue Code in recent years with increasing frequency. For example, the Code now requires over 50 other inflation-driven computations to determine deduction, exemption and exclusion amounts in addition to the 40 separate computations needed to inflation-adjust the tax bracket schedules each year. Estimates for any of the inflation-adjusted tax figures for 2018, of course, are also necessarily subject to any changes to the tax law that may be made by Congress over the course of the next year.

## **Key Tax Savings, Inflation-Adjusted Projections for 2018:**

Projections based on the Department of Labor's inflation figures for the 12-month period between August 31, 2016, and August 31, 2017 suggest most taxpayers will experience a degree of inflation-driven "tax cut" savings, compared to 2017 tax filings, even in the absence of tax reform legislation. In fact, the 2018 projections represent the largest year-over-year inflation adjustment since 2007. Here's an example of how taxpayers will benefit in 2018 when compared to 2017 based on the inflation adjustments provided under the current tax code:

- Because of the income ranges bracketing, the inflation adjustments will provide an effective "tax cut" by taxing more income at lower marginal tax rates. A single filer with taxable income of \$50,000 should owe \$105 less next year due to the adjustments to the income tax rate brackets between 2017 and 2018.

- A married couple filing jointly with a total taxable income of \$130,000 should pay

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additional budgetary expense on any additional tax reform measures that may pass. Taxpayers should also be aware that, within any comparison between 2017 and 2018 amounts, there is the possibility that Congress may make any tax rate cuts enacted this year retroactive to January 1, 2017, rather than start in 2018.

### **Other Inflation-adjusted Tax Estimates for 2018:**

- The personal exemption amount is projected to rise to \$4,150 for 2018, a \$100 dollar increase from 2017.
- The standard deduction for single, married filing jointly, and married filing separately filers is expected to rise for 2018: at \$6,500, \$13,000 and \$6,500, respectively, up from \$6,350, \$12,700 and \$6,350. The standard deduction for heads of household is expected to rise \$200 to \$9,550 for 2018. Any increase in the standard deduction, of course, can produce lower taxes by decreasing the taxpayer's taxable income. *Note that President Trump has proposed doubling the amount of the standard deduction.*
- Absent tax-cut legislation, the 2018 year will represent the sixth year that the 39.6-percent tax bracket for higher-income taxpayers, enacted by the American Taxpayer Relief Act of 2012 (ATRA), will be imposed. For 2018, Wolters Kluwer projects that the minimum taxable income amounts at which this top tax rate will kick in will rise to:
  - o \$480,050 (from \$470,700) for married joint filers
  - o \$453,350 (from \$444,550) for heads of households
  - o \$426,700 (from \$418,400) for unmarried filers
  - o \$240,025 (from \$235,350) for married separate filers

These inflation-adjusted amounts also trigger a 20-percent tax on that portion of

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- The estate and gift tax applicable exemption was first set at a \$5 million level back in 2011. The amount has been adjusted for inflation by Congress and is now projected at \$5,600,000 for 2018. A spousal portability election can now effectively protect double that amount against estate and gift tax (\$11,200,000 for 2018). Some tax reform proposals call for doing away with the estate tax, although some form of gift tax may remain. The annual gift tax exclusion for 2018 is projected to rise by \$1,000, sheltering gifts up to \$15,000 per donee.
- The 2018 foreign earned income exclusion will increase to \$104,100 for 2018, up from \$102,100 for 2017.
- The income phaseout range for married joint filers making Roth IRA contributions will start at a \$189,000 adjusted gross income level for 2018 tax year contributions, an increase from \$186,000 for 2017.

### **Wolters Kluwer Tax and Accounting US 2018 Tax Projections\***

As cited earlier, Wolters Kluwer Tax and Accounting projections for indexed amounts are based on the relevant inflation data released by the U.S. Department of Labor. The IRS usually releases official numbers by November each year.

Tax bracket projections are provided for illustrative purposes only, and should not be used for income tax returns or other federal income tax related purposes until confirmed by the IRS later this year, and as subject to amendment by Congress during the rest of 2017, or even retroactively during 2018.

### **Married Filing Jointly (& Surviving Spouse)**

<b>Tax Rate</b>	<b>2017 Taxable Income</b>	<b>2018 Taxable Income</b>
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10%

\$0 – \$10,000

\$0 – \$10,050

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35%      \$416,701 – \$470,700      \$424,951 – \$480,050

39.6%      \$470,701+      \$480,051+

## Unmarried Individuals (Other Than Surviving Spouses and Heads of Households)

Tax Rate	2017 Taxable Income	2018 Taxable Income
10%	\$0 – \$9,325	\$0 – \$9,525
15%	\$9,326 – \$37,950	\$9,526 – \$38,700
25%	\$37,951 – \$91,900	\$38,701 – \$93,700
28%	\$91,901 – \$191,650	\$93,701 – \$195,450
33%	\$191,651 – \$416,700	\$195,451 – \$424,950
35%	\$416,701 – \$418,400	\$424,951 – \$426,700
39.6%	\$418,401+	\$426,701+

## Head of Household

Tax Rate	2017 Taxable Income	2018 Taxable Income
10%	\$0 – \$13,350	\$0 – \$13,600
15%	\$13,351 – \$50,800	\$13,601 – \$51,850

25%                      \$50.801 – \$131.200                      \$51.851 – \$133.850

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### Married Individuals Filing Separate Returns

Tax Rate	2017 Taxable Income	2018 Taxable Income
10%	\$0 – \$9,325	\$0 – \$9,525
15%	\$9,326 – \$37,950	\$9,526 – \$38,700
25%	\$37,951 – \$76,550	\$38,701 – \$78,075
28%	\$76,551 – \$116,675	\$78,076 – \$118,975
33%	\$116,676 – \$208,350	\$118,976 – \$212,475
35%	\$208,351 – \$235,350	\$212,476 – \$240,025
39.6%	\$235,351+	\$240,026+

### Standard Deduction Amounts

Filing Status	2017	2018	Increase
Married Filing Jointly (&	\$12,700	\$13,000	\$300

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### Standard Deduction for Dependents

2017	2018	Increase
\$1,050	\$1,050	\$0

### Personal Exemption Amounts

2017	2018	Increase
\$4,050	\$4,150	\$100

### Gift Tax Exclusion

2017	2018	Increase
\$14,000	\$15,000	\$1,000

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