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Three Tax Reform Myths and Misconceptions

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Although the Tax Cuts and Jobs Act was passed last December, there is still confusion about how it will impact individual taxpayers. This month's Wealth Management Insights will walk you through three of the most common myths and misconceptions of the new legislation.

What you should know:

Myth 1: I can no longer deduct my mortgage interest or the interest on my home equity loan.

- Mortgage interest is still deductible under the new law, but only for interest on debt up to $750,000. This debt limit is a reduction from the previous limit of $1,000,000. As before, the deduction can apply to combined debt from a primary home and one secondary home.
- The new debt limit applies only to mortgages put in place after December 14, 2017. Loans acquired before this date are grandfathered under the previous debt limit.
- Interest on home equity loans is still deductible, with one major change: The loan proceeds must be used to build, buy or substantially improve your home. Interest on new or existing equity loans used for other purposes, such as vacations, tuition or car purchases, is no longer deductible.

Myth 2: The new tax bill eliminates most other common deductions.

- While some itemized deductions have been capped or even eliminated in the new legislation, many other deductions have been modified or left unchanged.
- The commonly used State and Local Tax (SALT) deduction, for example, is now capped at $10,000. This limit applies to the combined total of local property tax plus state income or sales tax.
- Although the Personal Exemption – which provided a $4,050 deduction for each taxpayer

and dependent – has been eliminated, the expanded child tax credit could offset the loss for many families. The tax credit for each child under 17 has doubled to $2,000, plus there is a new $500 credit applicable to other dependents such as older children or dependent parents. In addition, the income level to qualify for the credit has increased (with married couples going from $110,000 to $400,000), allowing many more families to benefit.

Myth 3: My taxable income is going up, so my tax bill will, too.

- Although itemized deductions are now generally reduced, the new standard deduction is nearly double the previous amount, going from $13,000 for a married couple to $24,000 in 2018. Some taxpayers who have itemized their deductions in the past may see their taxable income decrease by using the standard deduction.
- Even if you have higher taxable income, this will not result in a higher tax bill for most people because of the reduced tax rates across nearly all income levels. The Tax Policy Center estimates that 80% of taxpayers will see a decrease in their tax bill by an average of $2,100.
- About 5% of taxpayers will pay on average $2,800 more under the new legislation. Those most susceptible to a greater tax liability are high-income residents of high-tax states, or those who own multiple homes.

What you should do now:

There are many variables in the new tax code that will uniquely affect each taxpayer. Contact your Baird Financial Advisor for help sorting through how the new the changes will impact you. ■