THE TAX INSTITUTE AT H&R BLOCK

The Tax Cuts and Jobs Act

Five scenarios

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Five real-life scenarios

Here are five scenarios to demonstrate how the Tax Cuts and Jobs Act (TCJA) will affect taxpayers. These scenarios demonstrate how varying fact patterns could result in tax savings and tax increases under the plan.

Scenario 1:

Middle-income family of four living in California: Saves $3,559 in federal tax

Facts:

- Family of four (married couple with two children under 17)
- Homeowners in San Diego, CA
- Combined wages of $150,000
- Itemized deductions totaling $22,000 ($7,000 state/local tax; $4,000 real property tax; $1,000 personal property tax; $8,000 mortgage interest; $2,000 charitable contributions)

What would change under the TCJA:

- **Itemized vs. standard deduction.** Under prior law, the family's itemized deductions totaled $22,000. Under the TCJA, the expanded standard deduction of $24,000 is more advantageous for the family. Under the TCJA, the deduction for state and local income tax (or sales tax if taxpayer chooses), real estate tax and personal property tax is capped at $10,000 – reducing the family's allowable itemized deductions to $20,000. However, the reduction of these deductions is more than offset by the higher standard deduction.
- **Tax rate.** Under the TJCA, the family is in the 22 percent tax bracket, compared to the 25 percent tax bracket under prior law.
- **Tax credits.** Under prior law, this family would not receive a Child Tax Credit (CTC) due to income phaseouts. Under the TCJA, this family is eligible for a CTC of $4,000.
- **Exemptions.** While personal exemptions are eliminated under the TCJA, a combination of the increased standard deduction, increased CTC and lower rates make up for the loss of $16,600 in exemptions.

Results: Even with the removal of exemptions, this family would save $3,559 under the TJCA compared with prior law. The savings are due to an increased standard deduction, lower tax bracket, and a more generous CTC.

Scenario 2:

Lower-income head of household with two children living in Missouri: Saves $1,802

Facts:

- Family of three (single parent with two children under 17)
- Renters in Kansas City, MO
- Wages of $45,000
- Used standard deduction of $9,550 under prior law

What would change under the TCJA:

- **Standard deduction.** Because this family uses the standard deduction, the higher standard deduction of $18,000 under the TCJA is $8,450 more favorable.
- **Tax rate.** Under the TJCA, the family is in the 12 percent tax bracket, compared to the 15 percent tax bracket under prior law.
- **Tax credits.** The Child Tax Credit (CTC) is expanded under the TCJA, and increases from $1,000 to $2,000 per qualifying child. With two qualifying children, this taxpayer receives a CTC of $4,000 under the TCJA, versus a $2,000 credit under prior law.
- **Exemptions.** While personal exemptions are eliminated under the TCJA, a combination of the increased standard deduction, increased CTC and lower rates make up for the loss of $12,450 worth of exemptions.

Results: Even with the loss of $12,450 worth of exemptions, this family would save $1,802 under the TCJA compared with prior law because of the increased standard deduction, lower tax rates, and the increased CTC.

Scenario 3:

Middle-income single filer living in New York: Saves $101

Facts:

- Single filer
- Owns co-op in Queens, NY
- Wages of $120,000
- Itemized deductions totaling $22,500 ($10,000 state/local tax; $5,000 real property tax; $6,000 mortgage interest; $1,500 charitable contributions)

What would change under the TCJA:

- **Itemized vs. standard deduction.** Under the TCJA, the deduction for aggregate state and local income tax and property tax would be capped at $10,000. This taxpayer's combined real estate tax, and state and local income tax is $5,000 over the $10,000 maximum set by the TCJA. However, the total of the $10,000 allowable state and local tax deductions, mortgage interest deductions, and charitable contributions exceed the expanded standard deduction of $12,000 for a Single filer. Therefore, itemizing is still more advantageous by $5,500.

- **Tax rate.** This filer is in the 24 percent tax bracket under the TCJA, compared to the 28 percent tax bracket under prior law.
- **Exemptions.** This taxpayer's $4,150 personal exemption is eliminated under the TCJA.

Results: This single filer would have a $101 decrease in taxes under the TCJA. The rate reductions make up for the loss of $5,000 in itemized deductions ($22,500 - $17,500) and the loss of the personal exemption of $4,150.

Scenario 4:

Middle-income single filer living in Colorado earning $70,000 with high unreimbursed employee business expenses: Pays $1,484 more

Facts:

- Single filer
- Homeowner in Westminster, CO
- Wages of $70,000
- Unreimbursed employee business expenses totaling $10,000
- Itemized deductions totaling $19,600 ($2,500 state/local tax; $2,500 real property tax; $1,000 personal property tax; $5,000 mortgage interest; $8,600 unreimbursed employee business expenses above 2% AGI floor)

What would change under the TCJA:

- **Itemized vs. standard deduction.** Under prior law, the taxpayer's itemized deductions totaled $19,600, but under the TCJA, unreimbursed employee business expenses will not qualify for a deduction. Thus, the taxpayer loses $7,600 in deductions ($19,600 - $12,000 standard deduction) under the TCJA.
- **Tax rate.** Under the TJCA, the taxpayer is in the 22 percent tax bracket, compared to the 25 percent tax bracket under prior law.

Results: This taxpayer will pay $1,484 more tax under the TCJA compared with prior law, due to the repeal of the deduction for unreimbursed employee business expenses.

Scenario 5:

High-income single filer living in New York: Pays $6,470 more

Facts:

- Single filer
- Owns condo in Manhattan
- Wages of $500,000
- Itemized deductions totaling $135,000 limited to $128,001 due to Pease limitation for high earners ($46,000 state/local income tax; $24,000 real property tax; $55,000

mortgage interest; $10,000 charitable contributions)
- Would pay AMT under prior law

What would change under the TCJA:

- **Itemized vs. standard deduction.** Under the TCJA, the deduction for aggregate state and local income tax and property tax would be capped at $10,000. This taxpayer's combined real estate tax and state and local income tax is $60,000 over the $10,000 maximum set by the TCJA. As a result, itemized deductions are limited to $75,000 under the TCJA. This taxpayer is still itemizing under the TCJA.
- **Tax rate.** Under the TJCA, the taxpayer is in the 35 percent tax bracket, compared to the 33 percent tax bracket under prior law. However, the taxpayer would pay AMT under prior law and will not under the TCJA.

Results: This taxpayer will pay $6,470 more tax under the TCJA compared with prior law, due to the $10,000 cap for state and local tax and the higher marginal tax bracket under the TCJA.

Here is a summary of each of the above scenarios.

Scenario	**1**	**2**	**3**	**4**	**5**
Filing Status	MFJ	HH	S	S	S
Income	$150,000	$45,000	$120,000	$70,000	$500,000
Children under 17	2	2	0	0	0
State and local income tax	$7,000	*	$10,000	$2,500	$47,000
Personal property tax	$1,000	*	0	$1,000	0
Mortgage interest	$8,000	*	$6,000	$5,000	$55,000
Real estate tax	$4,000	*	$5,000	$2,500	$24,000
Charitable contribution	$2,000	*	$1,500	0	$10,000
Unreimbursed employee expenses	0	*	0	$10,000	0
Prior law tax	$19,158	$770	$18,991	$7,216	$117,970
TCJA tax (credit)	$15,599	($1,032)	$18,890	$8,700	$124,440
TCJA favorable / (unfavorable) compared to prior law	**$3,559**	**$1,802**	**$101**	**($1,484)**	**($6,470)**

* *Taxpayer claims the standard deduction*