



Employee Notice

Tax Cuts and Jobs Act of 2017

The **Tax Cuts and Jobs Act** is a United States Congressional bill to amend the Internal Revenue Code of 1986, effectively altering the rate of taxation for individuals and businesses. Major components of the Act include:

- Reducing tax rates for individuals and businesses;
- Increasing the standard deduction and family tax credits;
- Limiting the mortgage interest deduction;
- Limiting the Alternative Minimum Tax for individuals and eliminating it for corporations;
- Reducing the number of estates impacted by the estate tax; and
- Reducing the penalty for the individual mandate of the Affordable Care Act (ACA).

There are items in the Act that will affect employers and employees alike. As an employee, you may be impacted by changes your employer will have to make to comply with the new legislation. In addition, as an individual taxpayer, it is important to understand the upcoming legislative changes that will affect you directly.

WITHHOLDING TABLES / TAX RATES

WHAT YOU NEED TO KNOW AS AN INDIVIDUAL TAXPAYER

Tax rates will reduce for all tax brackets for both married and single taxpayers with the highest tax bracket dropping to 37 percent. This also sets the **Supplemental Tax Rate** to 22 percent for up to \$1 million and 37 percent for more than \$1 million for bonus payments made after January 1, 2018. The number of income tax brackets remain at seven, but the income ranges in several brackets have been updated. Below is a chart of how the tax brackets will change:

SINGLE TAXPAYERS				MARRIED FILING JOINTLY TAXPAYERS			
2017 Rates		2018 Rates		2017 Rates		2018 Rates	
Rate	Income Bracket	Rate	Income Bracket	Rate	Income Bracket	Rate	Income Bracket
10%	\$0 - \$9,525	10%	\$0 - \$9,525	10%	\$0 - \$19,050	10%	\$0 - \$19,050
15%	\$9,525 - \$38,700	12%	\$9,525 - \$38,700	15%	\$19,050 - \$77,400	12%	\$19,050 - \$77,400
25%	\$38,700 - \$93,700	22%	\$38,700 - \$82,500	25%	\$77,400 - \$156,150	22%	\$77,400 - \$165,000
28%	\$93,700 - \$195,450	24%	\$82,500 - \$157,500	28%	\$156,150 - \$237,950	24%	\$165,000 - \$315,000
33%	\$195,450 - \$424,950	32%	\$157,500 - \$200,000	33%	\$237,950 - \$424,950	32%	\$315,000 - \$400,000
35%	\$424,950 - \$426,700	35%	\$200,000 - \$500,000	35%	\$424,950 - \$480,050	35%	\$400,000 - \$600,000
39.6%	\$426,700+	37%	\$500,000+	39.6%	\$480,050+	37%	\$600,000+

WHAT YOU NEED TO KNOW AS AN EMPLOYEE

The IRS has indicated new withholding tables will be published as early as possible sometime in January. The reduced supplemental rate will need to be applied to any bonuses paid after January 1, 2018 at 22 percent or 37 percent based on amount. Paylocity will update the supplemental tax rates prior to 1/1/2018 so bonuses paid with a 2018 check date will be taxed at the updated supplemental withholding rate.

The IRS has indicated the new tables will have an implementation deadline of sometime in February. Details on these changes will be communicated as they are rolled out. You can expect your federal withholding amounts to change as the new tables are applied. Depending on when the tables are published, you may not see the changes on your first 2018 paycheck.

EXEMPTIONS

WHAT YOU NEED TO KNOW AS AN INDIVIDUAL TAXPAYER

The Act eliminates all personal exemptions. The withholding rules will be modified to reflect the fact that individuals can no longer claim personal exemptions. The Act increases the standard deduction for taxpayers to:

- \$24,000 for married taxpayers filing jointly,
- \$18,000 for heads of households, and
- \$12,000 for all other individuals.

The Act does not change the additional standard deduction for elderly and blind taxpayers.

WHAT YOU NEED TO KNOW AS AN EMPLOYEE

Since personal exemptions were eliminated, this requires changes to **Federal Form W-4, Employee's Withholding Allowance Certificate**. The IRS has stated that a new form may not be released until March 2018. Until the new form is available, employers must use the prior versions. Any exemptions claimed on Form W-4s completed before the new form is released will be null. The removal of personal exemptions will happen concurrently with the release of the new withholding tables. Paylocity will update the new version of the Form W-4 as soon as the IRS publishes it.

OTHER AREAS OF INTEREST FOR INDIVIDUAL TAXPAYERS

WAGE ADVANCES AND REPAYMENTS THAT CROSS TAX YEARS

If the repayment of a wage advance or overpayment crosses tax years and the amount is less than \$3,000, employees are no longer allowed to itemize their deductions to claim a federal income tax credit on the repayment.

EMPLOYEE UNREIMBURSED BUSINESS EXPENSES

Employees are no longer able to claim an itemized deduction for business expenses incurred on behalf of the employer but not reimbursed by the employer.

MOVING EXPENSE REIMBURSEMENTS

Qualified moving expenses must now be included in gross income and wages, except in the case of an armed forces member on active duty who moves pursuant to a military order.

STATE AND LOCAL TAX DEDUCTION

The deduction for state and local property, sales, or income taxes is now limited to \$10,000.

BICYCLE COMMUTING REIMBURSEMENTS

Employers may no longer exclude up to \$20 per month in reimbursements to an employee for bicycle commuting costs.

EMPLOYEE ACHIEVEMENT AWARDS

The value of all non-cash awards given to an employee for length of service or safety achievement under a qualified plan are excluded from the employee's wages and are exempt from Federal Income Tax Withholding up to \$1,600 per year. This exclusion does not apply to cash, gift cards, and other non-tangible personal property to be included in the award and must be appropriately taxed if included.

RETIREMENT PLAN LOAN OFFSET

Employees whose 401K plan terminates or employees who separate from employment while they have plan loans outstanding will have until the due date for filing their federal income tax return for that year to contribute the loan balance to an IRA to avoid the loan from being taxed as a distribution.

CHILD TAX CREDIT

The Act increased the amount of the child tax credit to **\$2,000 per qualifying child**. The maximum refundable amount of the credit is \$1,400. The Act also created a new nonrefundable \$500 credit for qualifying dependents who are not qualifying children.

MORTGAGE INTEREST DEDUCTION

Mortgage interest deduction for newly purchased homes (and second homes) is lowered from total loan balances of \$1 million under current law to **\$750,000**. Interest from home equity loans (aka second mortgages) is no longer deductible.

ESTATE TAX

Increases the threshold for the estate tax from \$5.5 million to **\$11.2 million**.

ALTERNATIVE MINIMUM TAX

For tax years beginning after Dec. 31, 2017, the alternative minimum tax exemption amount increases to **\$109,400 for married taxpayers filing a joint return** and **\$70,300 for most other taxpayers**.

EDUCATION DEDUCTIONS AND CREDITS

The Act modifies Sec. 529 plans to allow distribution of **no more than \$10,000 in expenses for tuition incurred** during the tax year at an elementary or secondary school. This limitation applies on a per-student basis, rather than a per-account basis. Otherwise, there are no changes to major education deductions and credits or to teacher deduction for unreimbursed classroom expenses.

AFFORDABLE CARE ACT

Effective **after January 1, 2019**, the Act reduces the **individual mandate penalty to zero** under Sec. 5000A, imposed on taxpayers who do not obtain insurance that provides at least minimum essential coverage. The individual mandate will still be in effect for all of 2018.

A FINAL NOTE

Many provisions of this Act are set to expire on December 31, 2025. If no legislation is passed to extend the tax changes beyond that date, tax rates and exemption rules will revert to current law.

This information is provided as a courtesy, may change, and is not intended as legal or tax guidance. Employers with questions or concerns outside the scope of a payroll service provider are encouraged to seek the advice of a qualified CPA, tax attorney, or advisor.