

Individual Tax Return Schedules and Their Relation to Capital Gain Taxation – 2018

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The proposed Tax Cuts and Jobs Act reduces the individual income tax brackets from seven brackets down to 4.5. They are 12%, 25%, 35%, 39.6%, and a phaseout of the 12% bracket for very high income individuals. The tables below detail the rates for each of the filing statuses.

Married, Filing Jointly and Surviving Spouse

Regular Tax Rates on Taxable Income			Capital Gain Rates		
At Least	But Less Than	Rate	At Least	But Less Than	Rate
\$1	\$90,000	12%	\$1	\$77,200	0%
\$90,000	\$260,000	25%	\$77,200	\$479,000	15%
\$260,000	\$1,000,000	35%	\$479,000	And Above	20%
\$1,000,000	And above	39.6%		?	25%
\$1,200,000 (AGI)*	And above	12% rate phaseout		?	28%

Single

Regular Tax Rates on Taxable Income			Capital Gain Rates		
At Least	But Less Than	Rate	At Least	But Less Than	Rate
\$1	\$45,000	12%	\$1	\$38,600	0%
\$45,000	\$200,000	25%	\$38,600	\$425,800	15%
\$200,000	\$500,000	35%	\$425,800	And Above	20%
\$500,000	And above	39.6%		?	25%
\$1,000,000 (AGI)*	And above	12% rate phaseout		?	28%

Head of Household

Regular Tax Rates on Taxable Income			Capital Gain Rates		
At Least	But Less Than	Rate	At Least	But Less Than	Rate
\$1	\$67,500	12%	\$1	\$51,700	0%
\$67,500	\$200,000	25%	\$51,700	\$452,400	15%
\$200,000	\$500,000	35%	\$452,400	And Above	20%
\$500,000	And above	39.6%		?	25%
\$1,000,000 (AGI)*	And above	12% rate phaseout		?	28%

Married, Filing Separately

Regular Tax Rates on Taxable Income			Capital Gain Rates		
At Least	But Less Than	Rate	At Least	But Less Than	Rate
\$1	\$45,000	12%	\$1	\$38,600	0%
\$45,000	\$130,000	25%	\$38,600	\$425,800	15%
\$130,000	\$500,000	35%	\$425,800	And Above	20%
\$500,000	And above	39.6%		?	25%
\$1,000,000 (AGI)*	And above	12% rate phaseout		?	28%

Estates and Trusts

Regular Tax Rates on Taxable Income			Capital Gain Rates		
At Least	But Less Than	Rate	At Least	But Less Than	Rate
\$1	\$2,550	12%	\$1	\$2,600	0%
\$2,550	\$9,150	25%	\$2,600	\$12,700	15%
\$9,150	\$12,500	35%	\$12,700	And Above	20%
\$12,500	And above	39.6%		?	25%
		No 12% rate phaseout		?	28%

* The legislation sets this threshold at adjusted gross income rather than taxable income. That may be a drafting error.

The series of examples below calculate tax based on the proposed legislation (TCJA tax) and compares it to the tax using the 2018 tax rate schedules assuming there is no tax legislation (No TCJA tax). The examples do not include any income from a flow-through entity that is subject to the special 25% tax rate, assume that the taxpayers were not itemizers before and after tax reform, and do not show the impact of the child and family credit.

Example 1: Middle income wage earners, MFJ. Tania and Rodrigo are wage earners with no long-term capital gains and \$87,000 of taxable income. TCJA tax: \$10,440; No TCJA tax: \$13,058.

Example 2: Upper middle income wage earners, MFJ. Kim and Diane are wage earners with no long-term capital gains and \$223,000 of taxable income. TCJA tax: \$44,050; no TCJA tax: \$49,063.

Example 3: Upper middle income wage earners with long-term capital gain, MFJ. Ralph and Jane are wage earners with \$40,000 long-term capital gain included in their \$333,000 taxable income. TCJA tax: \$70,850; no TCJA tax: \$77,416.

Example 4: Very high income wage earners with long-term capital gain, MFJ. Tanya and Delgado are wage earners with \$40,000 included in their \$1,675,000 taxable income. TCJA tax: \$596,600; no TCJA tax: \$599,604.

At least in these four examples, the TCJA reduces tax every time. But wait, there's more!

Now let's take a closer look at **Example 1** – how did we get to **\$87,000** of taxable income and how would credits impact the TCJA tax? The couple has two dependent children, 10 and 12 years old.

Combined Wages	\$110,550	
Interest Income	450	
Adjusted Gross Income	\$111,000	
Standard Deduction	-24,000	Increased from \$13,000
Exemption Deduction	0	Repealed; would have been \$16,600 (4 X \$4,150)
Taxable Income	\$87,000	
Tax on Taxable Income	\$10,440	
Child and Family Tax Credit	-3,800	(\$1,600 per child X 2) + (\$300 per spouse X 2)
Net Tax	\$ 6,640	

Using the same \$111,000 AGI, the net tax with no TCJA would be \$9,658 [\$111,000 - \$13,000 - \$16,600 = \$81,400; tax on \$81,400 = \$11,658; \$11,658 - \$2,000 child credit (2 X \$1,000) = \$9,658]. **The tax savings are \$3,018!**