

2018 Tax Code Changes and its Impact on Family Law

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- Individual Income Tax Rates
- Standard Deduction
- Personal and Dependent Exemptions
- Child Tax Credit
- Tax Deductible Support (2019)



Individual Income Tax Bracket – Single

2017

Taxable Income		Tax		
Over	But not over	Pay	+ % on Excess	Of the amount over
\$0	\$9,325	\$0.00	10.0%	\$0
\$9,325	\$37,950	\$932.50	15.0%	\$9,325
\$37,950	\$91,900	\$5,226.25	25.0%	\$37,950
\$91,900	\$191,650	\$18,713.75	28.0%	\$91,900
\$191,650	\$416,700	\$46,643.75	33.0%	\$191,650
\$416,700	\$418,400	\$120,910.25	35.0%	\$416,700
\$418,400		\$121,505.25	39.6%	\$418,400

2018

Taxable Income		Tax		
Over	But not over	Pay	+ % on Excess	Of the amount over
\$0	\$9,525	\$0.00	10.0%	\$0
\$9,525	\$38,700	\$952.50	12.0%	\$9,525
\$38,700	\$82,500	\$4,453.50	22.0%	\$38,700
\$82,500	\$157,500	\$14,089.50	24.0%	\$82,500
\$157,500	\$200,000	\$32,089.50	32.0%	\$157,500
\$200,000	\$500,000	\$45,689.50	35.0%	\$200,000
\$500,000		\$150,689.50	37.0%	\$500,000

2017 Federal Tax

\$125,000 Earnings - \$26,204

\$50,000 Earnings - \$6,651

2018 Federal Tax

\$125,000 Earnings - \$21,410
(\$4,794)

\$50,000 Earnings - \$4,370
(\$2,281)



Individual Income Tax Bracket – Head of Household

2017

Taxable Income		Tax		
Over	But not over	Pay	+ % on Excess	Of the amount over
\$0	\$13,350	\$0.00	10.0%	\$0
\$13,350	\$50,800	\$1,335.00	15.0%	\$13,350
\$50,800	\$131,200	\$6,952.50	25.0%	\$50,800
\$131,200	\$212,500	\$27,052.50	28.0%	\$131,200
\$212,500	\$416,700	\$49,816.50	33.0%	\$212,500
\$416,700	\$444,550	\$117,202.50	35.0%	\$416,700
\$444,550		\$126,950.00	39.6%	\$444,550

2018

Taxable Income		Tax		
Over	But not over	Pay	+ % on Excess	Of the amount over
\$0	\$13,600	\$0.00	10.0%	\$0
\$13,600	\$51,800	\$1,360.00	12.0%	\$13,600
\$51,800	\$82,500	\$5,944.00	22.0%	\$51,800
\$82,500	\$157,500	\$12,698.00	24.0%	\$82,500
\$157,500	\$200,000	\$30,398.00	32.0%	\$157,500
\$200,000	\$500,000	\$44,298.00	35.0%	\$200,000
\$500,000		\$149,298.00	37.0%	\$500,000

2017 Federal Tax

\$125,000 Earnings - \$23,165

\$50,000 Earnings - \$5,430

2018 Federal Tax

\$125,000 Earnings - \$18,578
(\$4,587)

\$50,000 Earnings - \$3,568
(\$1,862)

- Medical Expense Deduction subject to 7.5% of AGI vs. 10% in 2017
- Limits State and Local Tax deduction plus real estate tax deduction to a combined \$10,000. No limit in 2017
- Mortgage Interest Rate Tax Deduction is capped at \$750,000. 1 Million in 2018
- Misc. 2% Itemized Deduction eliminated

Nearly doubles the standard deduction for all 4 filing status'

2017

Standard Deductions

Married Joint	Single	Head of Household	Dependents	Married Separate
\$12,700	\$6,350	\$9,350	\$1,050	\$6,350

2018

Standard Deductions

Married Joint	Single	Head of Household	Dependents	Married Separate
\$24,000	\$12,000	\$18,000	\$1,050	\$12,000

A dependent is either a qualifying child or a qualifying relative

Qualifying Child

- Be taxpayer's child, sibling, step sibling, or descendent
- Have same principal residence for more than half the year
- Under age 19 or a student under the age of 24
- Cannot provide for more than half of his/her own support

Qualifying Relative

- Child or Child's descendent, sibling or step sibling, parent or other ancestor, step parent, niece or nephew, aunt or uncle, close in-law, or any other non spouse with same principal residence.
- Must have gross income below \$4,150
- Taxpayer must provide more than 50% of qualifying relatives support

- **Special Rule for Children of Divorced or Separated Parents**
 - **Child received over half of his/her support from one or both of the parents**
 - **Child was in the custody of one or both parents for more than half the year**
 - **Custodial parent signs form 8332 (Must only use form for post 2008 agreements)**
- **If this Rule applies, child will be treated as qualifying child of the non custodial parent for the dependency exemption, the child tax credit and the additional child tax credit**

- If dependent is a qualifying child or qualifying relative, taxpayer may be able to claim certain benefits
 - Dependent Exemption (now worth \$0)
 - Child Tax Credit (and additional Child Tax Credit)
 - Head of Household Filing Status
 - Credit for Child and Dependent Care Expenses
 - Earned Income Credit

- Increased from \$1,000 per child to \$2,000 per child in 2018
- Phaseout Thresholds increased from \$110,000 for MFJ and \$75,000 for individuals to \$400,000 for MFJ and \$200,000 for individuals
- Limited by amount of tax liability (see additional child tax credit)

- Up to \$1,400 of Child Tax Credit will be refundable even if in excess of tax liability
- For low income tax payers who otherwise wouldn't receive benefit of non refundable child tax credit.

- New for 2018 through 2025
- \$500 non-refundable credit available for non-child dependents

2017

- Dependent Exemption was worth \$4,050
- Child Tax Credit was worth \$1,000 phased out at \$110,000 and \$75,000

2018

- Dependent Exemption with \$0
- Child Tax Credit worth \$2,000 phased out at \$400,000 and \$200,000

2017 Federal Tax

\$275,000 –	\$1,336 Exemption \$0 Child Tax Credit
\$125,000 -	\$1,012 Exemption \$0 Child Tax Credit
\$50,000 -	\$607 Exemption \$1,000 Child Tax Credit

2018 Federal Tax

\$275,000 –	\$0 Exemption \$0 Child Tax Credit
\$125,000 -	\$0 Exemption \$2,000 Child Tax Credit
\$50,000 -	\$0 Exemption \$2,000 Child Tax Credit

- Unchanged in 2018
- Only the custodial parent can claim the credit
- \$3,000 maximum benefit for 1 child, \$6,000 for 2 or more children
- For care expenses related to any dependent who is disabled or qualifying child under age 13



Earned Income Credit

Item	Number of Qualifying Children			
	One	Two	Three or More	None
Earned Income Amount	\$10,200	\$14,320	\$14,320	\$6,800
Maximum Amount of Credit	\$3,468	\$5,728	\$6,444	\$520
Threshold Phase-out	\$18,700	\$18,700	\$18,700	\$8,510
Completed Phase-out	\$40,402	\$45,898	\$49,298	\$15,310
Threshold Phase-out Married Joint	\$24,400	\$24,400	\$24,400	\$14,200
Completed Phase-out Married Joint	\$46,102	\$51,598	\$54,998	\$21,000

Starting in 2019, IRC Sections 71 and 215 have been totally stricken from the tax code.

- Applies to all divorce or separation instruments executed on or after 1/1/2019 and to any preexisting instrument modified on or after 1/1/2019 when the modification expressly provides to apply the new rules.

- The Wisconsin “term of art” called Section 71 Payments is meaningless after 2018
- Family Support along with tax issues related to Family Support are no longer a concern
- Child Contingency Rules, Front Loading Rules, Temporary Support

What is the tax savings of Alimony?

Spouse A Income	Spouse B Income	Combined Income at 50/50		Savings in Deductible Maintenance
		Deductible	Non-Deductible	
\$80,000.00	\$20,000.00	\$90,245.00	\$91,321.00	(\$1,076.00)
\$80,000.00	\$30,000.00	\$95,767.00	\$96,577.00	(\$810.00)
\$80,000.00	\$40,000.00	\$101,182.00	\$101,552.00	(\$370.00)
\$80,000.00	\$50,000.00	\$108,401.00	\$107,476.00	\$925.00

What is the tax savings of Alimony?

Spouse A Income	Spouse B Income	Combined Income at 50/50		Savings in Deductible Maintenance
		Deductible	Non-Deductible	
\$150,000.00	\$20,000.00	\$133,765.00	\$136,331.00	(\$2,566.00)
\$150,000.00	\$30,000.00	\$140,845.00	\$141,587.00	(\$742.00)
\$150,000.00	\$40,000.00	\$147,955.00	\$146,562.00	\$1,393.00
\$150,000.00	\$50,000.00	\$154,755.00	\$152,486.00	\$2,269.00
\$150,000.00	\$60,000.00	\$161,071.00	\$159,819.00	\$1,252.00
\$150,000.00	\$70,000.00	\$167,385.00	\$167,132.00	\$253.00
\$150,000.00	\$80,000.00	\$173,700.00	\$173,465.00	\$235.00

What is the tax savings of Alimony?

Spouse A Income	Spouse B Income	Combined Income at 50/50		Savings in Deductible Maintenance
		Deductible	Non-Deductible	
\$300,000.00	\$20,000.00	\$231,017.00	\$221,134.00	\$9,883.00
\$300,000.00	\$30,000.00	\$237,132.00	\$228,929.00	\$8,203.00
\$300,000.00	\$40,000.00	\$243,245.00	\$234,663.00	\$8,582.00
\$300,000.00	\$50,000.00	\$249,298.00	\$240,587.00	\$8,711.00
\$300,000.00	\$60,000.00	\$255,317.00	\$247,920.00	\$7,397.00
\$300,000.00	\$70,000.00	\$261,358.00	\$255,233.00	\$6,125.00
\$300,000.00	\$80,000.00	\$267,402.00	\$261,566.00	\$5,836.00

- Timing of Divorce in late 2018. Do you push into 2019?
- Section 71 terminology and application
- Modifications to maintenance agreements after 1/1/2019
- Deductible versus Non Deductible maintenance in 2018?
- Will Wisconsin follow federal tax changes?

