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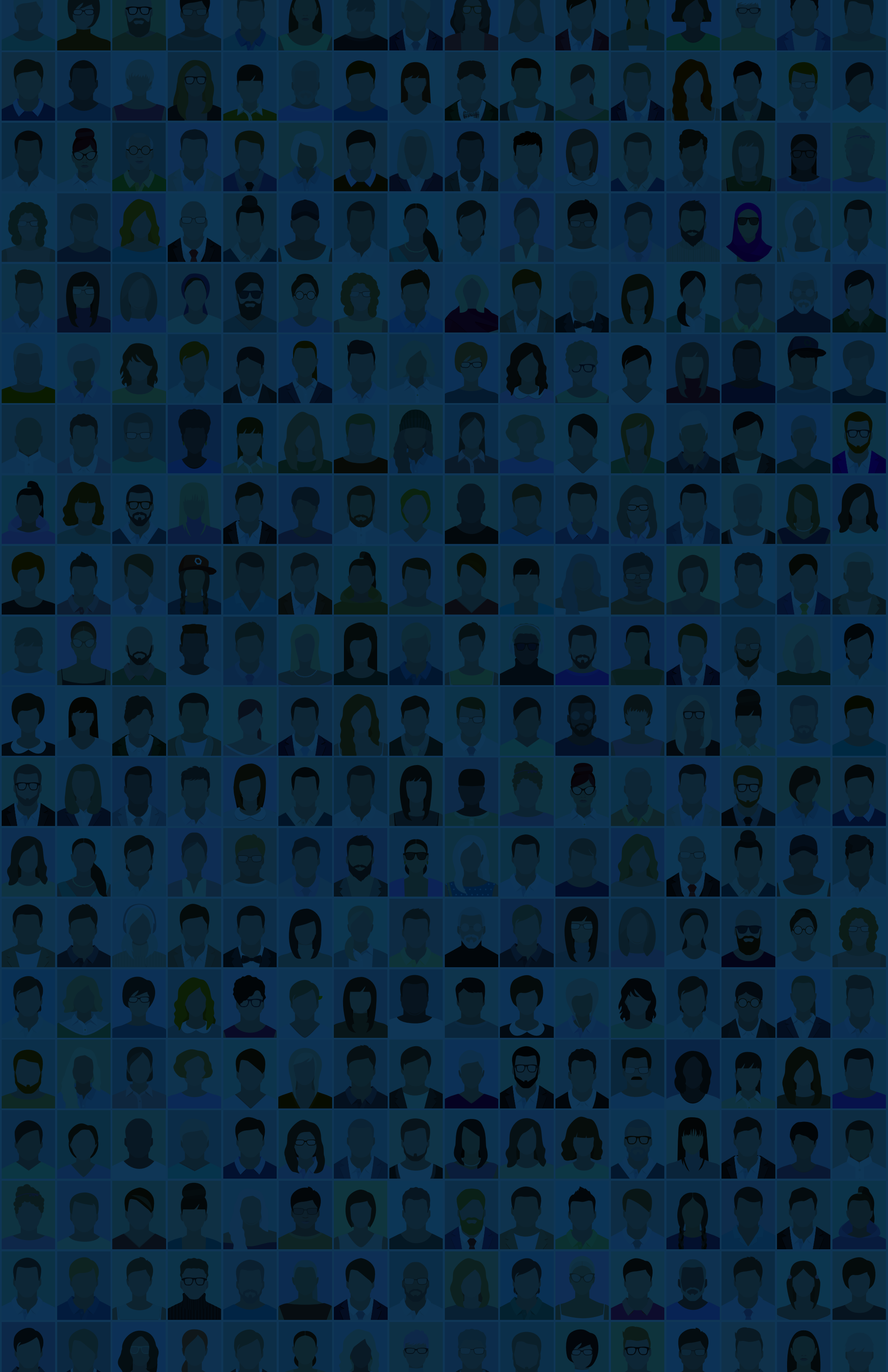

Introduction

The Tax Cuts and Jobs Act became law on Dec. 22, 2017, bringing the most sweeping tax reform in more than 30 years. Many of the changes, which include special implications for the military community, will have a direct impact on service members and their finances. The changes will not have the same impact on everyone, so service members should consider their individual circumstances and adapt to the reforms in ways that preserve their finances and lifestyles.

This booklet highlights tax law changes that are most likely to impact service members and their families. Additional changes may apply to those with special circumstances or financial situations. We encourage taxpayers to consult with a tax professional to fully understand all changes that may impact their 2018 taxes. Many changes are in effect only through 2025, after which the rules may change again.

Use this booklet's information and resources to prepare for the next tax season.

Key Tax Law Reforms

Standard deductions: The new tax law has nearly doubled the standard deductions.

Old Rule	New Rule (effective Jan. 1, 2018)
Taxpayers who did not itemize could claim the standard deduction of $6,350 for single individuals, $9,350 for heads of household, or $12,700 for married couples filing jointly.	Taxpayers who do not itemize can claim the standard deduction of $12,000 for single individuals, $18,000 for heads of household, or $24,000 for married couples filing jointly.

Personal exemption deduction: The new tax law has eliminated the personal exemption.

Old Rule	New Rule (effective Jan. 1, 2018)
Taxpayers could reduce their adjusted gross income, or AGI, by claiming personal exemptions. These exemptions were generally for taxpayers, their spouses, and their dependents.	Personal exemptions are suspended through 2025.

Child tax credit: Under the new tax law, the maximum child tax credit has increased and many more taxpayers qualify.

Old Rule	New Rule (effective Jan. 1, 2018)
The child tax credit was $1,000 per child under age 17. The credit was reduced by $50 for each $1,000 a taxpayer earns over certain thresholds. The phase-out thresholds started at a modified AGI over $75,000 for single individuals and heads of household, $110,000 for married couples filing jointly, and $55,000 for married couples filing separately.	The child tax credit increases from $1,000 to $2,000 per qualifying child. Up to $1,400 of the credit can be received as refundable credit (meaning it can go toward a tax refund). The new rule includes a $500 nonrefundable credit per dependent other than a qualifying child. For individuals, the credit begins to phase out at an AGI over $200,000; for married couples filing jointly, phase-out starts at an AGI over $400,000.

Education: Under the new tax law, uses for 529 education savings plan funds have expanded.

Old Rule	New Rule (effective Jan. 1, 2018)
Funds from a 529 education savings plan could be used only on qualified higher education expenses.	Funds from 529 plans can be used to pay for private K-12 education expenses at elementary or secondary public, private or religious schools with disbursements limited to $10,000 annually per child.

Estate taxes: The estate tax is a tax levied on large estates that are passed down to heirs. Under the new tax law, the estate tax exemption has doubled.

Old Rule	New Rule (effective Jan. 1, 2018)
Estates up to $5.49 million in value were exempt from the estate tax.	The estate tax exemption has doubled and is now at $11.2 million, which means an estate valued at less than the new threshold will not be taxed upon the owner's death.

Investment fees: The new tax law has eliminated the tax deduction for investment fees.

Old Rule	New Rule (effective Jan. 1, 2018)
Taxpayers could deduct fees paid to advisors and brokers to manage their money.	Taxpayers can no longer deduct investment fees from taxes. Those who have substantial investor fees will likely be paying more in taxes.

Tax-preparation fees: The new tax law has eliminated the deduction for tax-preparation fees.

Old Rule	New Rule (effective Jan. 1, 2018)
Taxpayers could deduct the cost of tax preparation from their taxable income.	Beginning with 2018 taxes, taxpayers may not claim tax-preparation expenses as an itemized deduction.

Moving expenses: The new tax law has eliminated the deduction for moving expenses — but military personnel may be exempt from this change.

Old Rule	New Rule (effective Jan. 1, 2018)
Taxpayers who moved to a new location for work and met specific criteria qualified to deduct moving expenses from their taxes.	The new tax law suspends moving-expense deductions through 2025, however, members of the armed forces can still deduct moving expenses as long as the move is part of an authorized permanent change of station.

State and local tax deduction: The new tax law has placed new limits on itemized deductions.

Old Rule	New Rule (effective Jan. 1, 2018)
Taxpayers could include state and local property, income and sales taxes as itemized deductions.	Taxpayers are limited to claiming an itemized deduction of $10,000 for all state and local income, sales and property taxes.

Home equity loans or home equity lines of credit: The new law has placed more restrictions on interest deductions for home equity loans and HELOCs.

Old Rule	New Rule (effective Jan. 1, 2018)
Interest on up to $100,000 of home equity borrowing was tax deductible. The funds did not have to be used for expenses related to real estate.	Beginning in 2018, homeowners will not be able to deduct interest on a home equity loan or HELOC unless it is for buying, building or making substantial improvements to the home that secures the loan.

Tax brackets: The new tax law has modified the seven existing tax brackets.

Old Rule	New Rule (effective Jan. 1, 2018)
There were seven tax brackets ranging from 10% to 39.6%.	There are still seven tax brackets, but they have been changed to lower most individual income tax rates and now range from 10% to 37%.

Single

Old Rule Taxable Income	Old Rule Tax Bracket	New Rule Taxable Income*	New Rule Tax Bracket*
$9,325 or less	10%	$9,525 or less	10%
$9,326-$37,950	15%	$9,526-$38,700	12%
$37,951-$91,900	25%	$38,701-$82,500	22%
$91,901-$191,650	28%	$82,501-$157,500	24%
$191,651-$416,700	33%	$157,501-$200,000	32%
$416,701-$418,400	35%	$200,001-$500,000	35%
Over $418,400	39.6%	Over $500,000	37%

**Effective Jan. 1, 2018*

Married Filing Jointly or Qualifying Widow(er)

Old Rule Taxable Income	Old Rule Tax Bracket	New Rule Taxable Income*	New Rule Tax Bracket*
$18,650 or less	10%	$19,050 or less	10%
$18,651-$75,900	15%	$19,051-$77,400	12%
$75,901-$153,100	25%	$77,401-$165,000	22%
$153,101-$233,350	28%	$165,001-$315,000	24%
$233,351-$416,700	33%	$315,001-$400,000	32%
$416,701-$470,700	35%	$400,001-$600,000	35%
Over $470,700	39.6%	Over $600,000	37%

**Effective Jan. 1, 2018*

Married Filing Separately

Old Rule Taxable Income	Old Rule Tax Bracket	New Rule Taxable Income*	New Rule Tax Bracket*
$9,325 or less	10%	$9,525 or less	10%
$9,326-$37,950	15%	$9,526-$38,700	12%
$37,951-$76,550	25%	$38,701-$82,500	22%
$76,551-$116,675	28%	$82,501-$157,500	24%
$116,676-$208,350	33%	$157,501-$200,000	32%
$208,351-$235,350	35%	$200,001-$300,000	35%
Over $235,350	39.6%	Over $300,000	37%

**Effective Jan. 1, 2018*

Head of Household

Old Rule Taxable Income	Old Rule Tax Bracket	New Rule Taxable Income*	New Rule Tax Bracket*
$13,350 or less	10%	$13,600 or less	10%
$13,351-$50,800	15%	$13,601-$51,800	12%
$50,801-$131,200	25%	$51,801-$82,500	22%
$131,201-$212,500	28%	$82,501-$157,500	24%
$212,501-$416,700	33%	$157,501-$200,000	32%
$416,701-$444,550	35%	$200,001-$500,000	35%
Over $444,550	39.6%	Over $500,000	37%

**Effective Jan. 1, 2018*

401(k) and Thrift Savings Plan contributions: Contribution limits have increased for 2018 due to cost-of-living adjustments.

Old Rule	New Rule (effective Jan. 1, 2018)
Employees could contribute up to $18,000 in 2017. Employees who were age 50 or older at the end of the year could make a catch-up contribution up to an additional $6,000.	Employees can contribute up to $18,500 in 2018. Employees who are age 50 or older at the end of the year can make a catch-up contribution up to an additional $6,000 (the catch-up contribution amount did not change from 2017).

Elective deferral/additional contribution limits: The tax law has increased the total amount employees and employers can contribute to the employee's retirement account and still exclude the contributions from gross income for tax purposes.

Old Rule	New Rule (effective Jan. 1, 2018)
The maximum total amount the employee and employer could contribute to the employee's retirement account in 2017 was $54,000.	The maximum total amount the employee and employer can contribute to the employee's retirement account in 2018 is $55,000.

Individual Retirement Account limits: Income ranges for determining eligibility to make deductible contributions to traditional IRAs have increased for 2018. Note: Total contributions to all traditional and Roth IRAs cannot be more than $5,500 ($6,500 for those age 50 or older).

Old Rule	New Rule (effective Jan. 1, 2018)
For single taxpayers covered by a workplace retirement plan, the phase-out range was $62,000 to $72,000.	For single taxpayers covered by a workplace retirement plan, the phase-out range is $63,000 to $73,000.
For married couples filing jointly, where the spouse making the IRA contribution was covered by a workplace retirement plan, the phase-out range was $99,000 to $119,000.	For married couples filing jointly, where the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is $101,000 to $121,000.
For an IRA contributor who was not covered by a workplace retirement plan and was married to someone who was covered, the deduction was phased out if the couple's income was between $186,000 and $196,000.	For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between $189,000 and $199,000.

Old Rule	New Rule (effective Jan. 1, 2018)
For a married individual filing a separate return who was covered by a workplace retirement plan, the phase-out range was $0 to $10,000.	For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

Roth Individual Retirement Account phase out: The income phase-out range for taxpayers making contributions to a Roth IRA has increased for 2018. Note: Total contributions to all traditional and Roth IRAs cannot be more than $5,500 ($6,500 for those age 50 or older).

Old Rule	New Rule (effective Jan. 1, 2018)
The income phase-out range for singles and heads of household making contributions to a Roth IRA was $118,000 to $133,000 for singles and heads of household. For married couples filing jointly, the income phase-out range was $186,000 to $196,000. The phase-out range for a married individual filing a separate return who makes contributions to a Roth IRA was $0 to $10,000.	The income phase-out range for singles and heads of household making contributions to a Roth IRA is $120,000 to $135,000. For married couples filing jointly, the income phase-out range is $189,000 to $199,000. The phase-out range for a married individual filing a separate return who makes contributions to a Roth IRA is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

Special Implications for Service Members

Under the new tax law, the majority of service members will see their taxes decrease. How much each individual's taxes will change depends on factors including income, marital status, children, and property ownership. The key areas that affect service member's taxes include:

- Reserve service members: Reservists cannot deduct unreimbursed travel expenses to attend drill duty taking place less than 100 miles from home. Reservists can still take an above-the-line deduction for unreimbursed travel expenses to attend drill more than 100 miles from home.
- Retroactive combat zone tax benefits for the Sinai Peninsula: Deployments to the Sinai Peninsula may now qualify for combat zone tax benefits retroactive to June 9, 2015. Service members who previously served in the newly designated combat zone can seek a tax refund by submitting an amended tax return (Form 1040-X) for the year in which they were there, dating back to 2015.

The tax law changes will not have the same impact on everyone within the military community. Here's a look at how the tax changes may affect specific service members and their families:

Example 1

A young, unmarried sailor

- Rank: Petty officer (E-4) with four years of service
- Assignment: Naval Station Norfolk, Virginia
- 2018 income: $29,900

Service members in the lowest tax brackets will still see a significant benefit from the new tax rules. Single filers earning between $9,526 and $38,700 will see their tax rate drop from 15 percent to 12 percent, increasing their take-home money. In this example, the sailor will save about $1,100 a year. The $1,100 tax savings calculation assumes the sailor has no more than $12,000 in itemized deductions and no dependents. Please keep in mind that savings can vary significantly depending on a service member's circumstances.

Example 2

A married soldier with two children

- Rank: Sergeant first class (E-7) with 12 years of service
- Assignment: Just moved to Fort Bragg, North Carolina
- 2018 income: $50,200 ($100,400 with employed spouse)

In this example, if each spouse earns a similar salary, their family would fall in the third tax bracket, which drops from 25 percent to 22 percent under the new law. The tax credit for children doubles to $2,000 per child, and the standard deduction for couples goes from $12,700 to $24,000.

These changes will significantly reduce this family's income taxes, somewhere in the range of $3,000 per year. Although the family may not have been able to take itemized deductions similar to what they had in previous tax years, due to tax reform, the increased standard deduction and child tax credit significantly reduced their overall tax liability. This family, as most families, is likely to pay less in taxes as a result of the changes.

Example 3

A married Marine officer with one child

- Rank: First lieutenant (O-2) with three years of service
- Assignment: Owns a house near Marine Corps Base Quantico, Virginia
- 2018 income: $56,350

This example assumes the spouse is not employed. This income places the couple in the middle of the 12 percent tax bracket, and they'll receive the same benefits as the previous examples from the standard deduction increase and the child tax credit boost.

Because of the property taxes imposed on their house and the sales tax rates in Virginia, the family has a high risk of hitting the new $10,000 cap on the itemized deduction for state and local taxes. Even with the mortgage interest deduction, the family's total itemized deductions will most likely be less than the $24,000 standard deduction. Still, the family should expect to see an overall tax liability decrease of about a few hundred dollars under the new law.

Example 4

An unmarried senior Air Force officer

- Rank: Colonel (O-6) with 18 years of service
- Assignment: Scott Air Force Base, Illinois
- 2018 income: $117,800

The officer in this example falls in the middle of the seven tax brackets. Under the new tax reform, the tax rate drops from 28 percent to 24 percent.

Since this example shows a single filer with high income and no children, the officer may have more excluded financial investment fees than her married peers and is more likely to be negatively affected by the elimination of deductions. Still, the taxpayer will likely see a reduced tax liability in 2018 due to the reduced tax rates and higher standard deduction. The colonel should have a $3,300-plus increase in take-home money each year.

Resources

- Military OneSource MilTax provides free online tax preparation, e-filing services and access to tax consultants for service members and their families. Contact the MilTax program via internet or phone.
  - http://www.militaryonesource.mil/taxprep
  - 800-342-9647

- Tax preparation is available to service members and their families at locations across the world through the Volunteer Income Tax Assistance program. Learn more about no-cost tax preparation services and locate the nearest VITA site.
  - https://www.militaryonesource.mil/vita-location-lookup

- The Internal Revenue Service provides a useful Withholding Calculator to help taxpayers determine whether they need to make adjustments.
  - https://www.irs.gov/individuals/irs-withholding-calculator

- The IRS often changes and updates tax forms. Always check the IRS website for the most up-to-date tax forms before planning or preparing taxes.
  - https://apps.irs.gov/app/picklist/list/formsPublications.html

- Personal financial managers and personal financial counselors are available to help. Set up a no-cost appointment at your nearest Family Center to review current finances and prepare for any impacts the new regulations may have on goals.
  - https://installations.militaryonesource.mil
  - https://www.jointservicessupport.org/spn

- Follow the Office of Financial Readiness on Facebook, Twitter and Instagram for tips to keep financially fit. Look for more on YouTube.
  - https://www.facebook.com/DoDFINRED
  - https://twitter.com/DoDFINRED
  - https://www.instagram.com/DoDFINRED
  - https://www.youtube.com/channel/UCg0MPnnOV4wVimcGH1i-T8Q

Glossary

Adjusted Gross Income: This is gross income reduced by certain amounts, such as a deductible Individual Retirement Account contribution or student loan interest.

Benefits received: This is a concept of tax fairness that states that people should pay taxes in proportion to the benefits they receive from government goods and services.

Dependent: This is a qualifying child or qualifying relative, other than the taxpayer or spouse, who entitles the taxpayer to claim a dependency exemption.

Exemptions: This is an amount that taxpayers claim for themselves, their spouses and eligible dependents. There are two types of exemptions — personal and dependency. Each exemption reduces the income subject to tax. While each is worth the same amount, different rules apply to each. Tax reform has suspended exemptions from 2018 through 2025.

Federal income tax: The federal government levies a tax on personal income. The federal income tax provides for national programs such as defense, foreign affairs, law enforcement and interest on the national debt.

Filing status: This determines the rate at which income is taxed. The five filing statuses are: single, married filing a joint return, married filing a separate return, head of household, and qualifying widow(er) with dependent child.

Gross income: This is money, goods, services and property a person receives and must report on a tax return. It includes unemployment compensation, retirement pay and certain scholarships. It does not include welfare benefits, Department of Veterans Affairs disability compensation — which is not taxable — and nontaxable Social Security benefits.

Head of Household filing status: Taxpayers must meet the following requirements: 1. Unmarried or considered unmarried on the last day of the year. 2. Paid more than half the cost of keeping up a home for the year. 3. A qualifying

person lived with the taxpayer in the home for more than half the year (except temporary absences, such as school). However, a dependent parent does not have to live with the taxpayer.

Income taxes: These are taxes on income, both earned (salaries, wages, tips, commissions, rent) and unearned (interest, dividends). Income taxes can be levied on both individuals (personal income taxes) and businesses (corporate income taxes).

Internal Revenue Service: This is the federal agency that collects income taxes in the United States.

Married Filing Jointly status: Taxpayers must be married and agree to file a joint return to use this status to file. (On a joint return, taxpayers report combined income and deduct combined allowable expenses.)

Married Filing Separately status: Taxpayers must be married to use this status to file. This method may benefit taxpayers who want to be responsible for their own tax or if this method results in less tax than a joint return. However filing separately can disqualify or limit the use of potentially valuable tax benefits such as the Earned Income Credit and tax-favored savings in individual retirement accounts. If married couples do not agree to file a joint return, they may have to use this filing status.

Personal exemption: This exemption reduces the income subject to tax by the exemption amount. It can be claimed for the taxpayer and spouse. (Under the new tax law, there is no longer a personal exemption.)

Property taxes: These are taxes on property, especially real estate. They can also apply to boats, automobiles (often paid along with license fees), recreational vehicles and business inventories.

Refund: This is money that is owed to taxpayers when their total tax payments are greater than their total tax liability. The government pays refunds to qualifying taxpayers.

Salary: This is compensation employees receive for services they perform. A salary is a fixed sum paid for a specific period of time worked, such as weekly or monthly.

Single filing status: This status applies to taxpayers if, on the last day of the year, they are unmarried or legally separated from their spouse under a divorce or separate maintenance decree and do not qualify for another filing status.

Standard deduction: This reduces the income subject to tax and varies depending on filing status, age, blindness and dependency.

Tax code: This is the official body of tax laws and regulations.

Tax cut: This is a reduction in the amount of taxes the government collects.

Taxes: These are required payments of money to a government body, which uses them to provide public goods and services for the benefit of the community as a whole.

Tax exemption: This is the part of a person's income on which no tax is imposed.

Withholding ("pay-as-you-earn" taxation): This is money that employers withhold from employees' paychecks. This money is deposited for the government. (It will be credited against the employees' tax liability when they file their returns.) Employers in some states and localities withhold money for federal income taxes, Social Security taxes and state and local income taxes.

MILITARY ONE SOURCE

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