

# United States: Summary of key 2017 and 2018 federal tax rates and limits – many changes after tax reform

March 27, 2018

## In brief

The following is a high-level summary of some key individual tax rates and applicable limits for 2017 and 2018. For purposes of this *Insight*, the reference to '\$' means US dollars. Further:

- MFJ means married filing jointly
- MFS means married filing separately
- HOH means head of household.

This compilation is intended to serve as a handy reference guide for companies with globally mobile workforces as they prepare for US individual tax filings relating to 2017, as well as planning for 2018.

The list is not exhaustive and does not contain all the changes made by the 2017 US tax reform legislation (hereinafter the Act) enacted December 22, 2017. For more information, please see our prior Global Mobility *Insight* (December 27, 2017). It is important to note that most individual tax changes under the Act that are relevant for the 2018 tax year are scheduled to sunset after 2025.

## In detail

### Specific tax levies and income tax withholding

FICA taxes	2017	2018
Social security (SS) wage base	\$127,200	\$128,400
SS maximum – 6.2%	\$7,886.40	\$7,960.80
Medicare – 1.45%*	No ceiling	No ceiling

\*See below, under 'Additional Medicare tax', for details on an increase in the Medicare tax that applies to wages and other compensation only in excess of an applicable threshold amount.

<b>Additional Medicare tax</b>	<b>2017</b>	<b>2018</b>
A 0.9% tax is imposed on individual wages and other compensation in excess of the following threshold amounts:	Single \$200,000 MFJ \$250,000 MFS \$125,000 HOH \$200,000	Single \$200,000 MFJ \$250,000 MFS \$125,000 HOH \$200,000

<b>Tax on net investment income</b>	<b>2017</b>	<b>2018</b>
A 3.8% tax is imposed on the lesser of net investment income or the excess of modified adjusted gross income over the following threshold amounts:	Single \$200,000 MFJ \$250,000 MFS \$125,000 HOH \$200,000	Single \$200,000 MFJ \$250,000 MFS \$125,000 HOH \$200,000

<b>Supplemental withholding flat rates</b>	<b>2017</b>	<b>2018**</b>
Supplemental wages up to \$1,000,000 (optional)*	25%	22%
Supplemental wages greater than \$1,000,000	39.6%	37%

\*In lieu of regular tax withholding rates and available only if certain requirements are met.

\*\*Note that for 2018, the withholding rates shown above *may* have been used during January and up to February 15th because employers did not have to adopt these percentages until February 15, 2018.

### Calculating individual taxable income

<b>Personal exemptions (PE)</b>	<b>2017</b>	<b>2018</b>
Personal exemption	\$4,050	0

\*The personal exemption was eliminated for tax years after 2017.

<b>PE phase-out</b>	<b>2017</b>	<b>2018</b>
The phase-out of personal exemptions begins when adjusted gross income (AGI) reaches:	Single \$261,500 MFJ \$313,800 MFS \$156,900 HOH \$287,650	No personal exemption

\*For 2017, the phase-out of personal exemptions ends at \$384,000 for single individuals, \$436,300 for married persons filing jointly, \$410,150 for heads of households, and \$218,150 for married individuals filing separate returns.

<b>Standard deduction</b>	<b>2017</b>	<b>2018</b>
Standard deduction	Single \$6,350 MFJ \$12,700 MFS \$6,350 HOH \$9,350	Single \$12,000 MFJ \$24,000 MFS \$12,000 HOH \$18,000

\*The Act eliminated the PE and put in place larger standard deductions and child tax credits for tax years after 2017.

Itemized deductions	2017	2018
The overall reduction in itemized (not standard) deductions by 3% of AGI in excess of the following amounts*:	Single \$261,500 MFJ \$313,800 MFS \$156,900 HOH \$287,650	Overall limitation is repealed.
AGI threshold that unreimbursed medical and dental expense deductions must reach before a deduction is permitted for all taxpayers:	7.5%	7.5%
Deduction for state and local taxes not accrued in a trade or business, or on property held for the production of income:	No limit, other than overall reduction noted above	May not exceed \$10,000, MFS \$5,000 (foreign real property taxes not deductible)

\*The Act makes various other changes to itemized deductions such as the mortgage interest deduction, charitable donations, employee business expenses, tax preparation fees, other 2% miscellaneous items, alimony, and moving expenses. For more information, please see prior Global Mobility *Insight* (December 27, 2017).

Standard mileage rates	2017	2018
Business	\$0.535	\$0.545
Charitable	\$0.14	\$0.14
Medical and moving	\$0.17	\$0.18

Section 911	2017	2018
Annual exclusion	\$102,100	\$103,900
Base housing amount	\$16,336	\$16,624
Standard qualified housing expense limit*	\$30,630	\$31,170

\*Adjustments to the limitation are provided for certain countries with high housing costs. 2017 adjusted limitations are included in Notice 2017-21; 2018 adjusted limitations are yet to be announced.

Expatriation	2017	2018
Five-year average annual net income tax in excess of the following amount:	\$162,000	\$165,000
Amount of net gain from mark-to-market tax regime includible in gross income of covered expatriate is reduced by (but not below zero):	\$699,000	\$711,000

### Calculating the individual income tax due

Alternative minimum tax	2017	2018
Alternative minimum tax (AMT) exemption amounts (subject to phase-out described in the table below):	Single \$54,300 MFJ \$84,500 MFS \$42,250 HOH \$54,300	\$70,300 \$109,400 \$54,700 \$70,300

Alternative minimum tax phase-out	2017	2018
The phase-out of the AMT exemption amount begins when the alternative minimum taxable income exceeds the following amounts:	Single \$120,700 MFJ \$160,900 MFS \$80,450 HOH \$120,700	\$500,000 \$1,000,000 \$500,000 \$500,000

Capital gains tax	2017*	2018**
Long term:	15%/20%	15%/20%
Lower-income taxpayers:	0%	0%
Short term:	Ordinary rates	Ordinary rates

\*The maximum rate of tax on long-term capital gains (with some exceptions) is 0% on any amount that otherwise would be taxed at a 10% or 15% rate, 15% on any amount that otherwise would be taxed at rates greater than 15% but less than 39.6%, and 20% on any amount that otherwise would be taxed at a 39.6% rate.

\*\*After 2017, the Act generally retains the 2017 maximum rates on net capital gains; however, certain so-called 'breakpoints' for determining what tax rate is used are indexed differently.

Qualified dividends	2017*	2018**
Qualified dividend rate:	15%/20%	15%/20%
Lower-income taxpayers:	0%	0%
Nonqualified dividends:	Ordinary rates	Ordinary rates

\*The maximum rate of tax on qualified dividends is 0% on any amount that otherwise would be taxed at a 10% or 15% rate, 15% on any amount that otherwise would be taxed at rates greater than 15% but less than 39.6%, and 20% on any amount that otherwise would be taxed at a 39.6% rate.

\*\*After 2017, the Act generally retains the 2017 maximum rates on qualified dividends, however, certain so-called 'breakpoints' for determining what tax rate is used are indexed differently.

Child tax credit	2017	2018
Child tax credit (per child)*	\$1,000	\$2,000 (\$1,400 refundable) \$500 nonrefundable credit for dependents other than qualifying children and for qualifying children without social security numbers

\*After 2017, the qualifying child must have a social security number by the due date of the taxpayer's return in order to claim the credit (except for \$500 nonrefundable credit). The credit is subject to phase-out for individuals with income over certain threshold amounts. Phase-out limitations are increased after 2017 and apply when taxpayers have modified adjusted gross income in excess of \$400,000 for married filing jointly, and \$200,000 for all others.

### Healthcare Shared Responsibility Payment

The Shared Responsibility Payment for individuals is generally the greater of:\*

- Flat Dollar Amount (family maximum of \$2,085 in 2017), or
- Percentage of Income above Filing Threshold (rate: 2.5% in 2017).

The maximum penalty is published each year by the IRS. For 2017, the maximum is \$3,264 per year for an individual and \$16,320 per year for a family with five or more members. Maximum penalties for 2018 will be announced at a later time. It is important to note that there are various exemptions, rules, and thresholds that could impact what payment is owed.

\*Under the Affordable Care Act, individuals must either: (i) have qualifying health care coverage (i.e., minimum essential coverage), (ii) qualify for an exemption from this requirement, or (iii) make a Shared Responsibility Payment with their individual income tax return. Exemptions include, for example, having a short gap in coverage or being offered only coverage that costs more than a certain percentage of household income. Exemptions are also provided for nonresident aliens; US citizens or resident aliens who were physically present in a foreign country or countries for at least 330 full days during any period of 12 consecutive months; and US citizens who were bona fide residents of a foreign country or countries for an uninterrupted period which includes an entire tax year.

President Trump issued the Executive Order Minimizing the Economic Burden of the Patient Protection and Affordable Care Act Pending Repeal on January 20, 2017. According to the IRS website, the IRS put in place system changes that would reject tax returns during processing in instances where the taxpayer did not provide information related to health coverage on their return. In response to the executive order, the IRS announced that it is making changes that would continue to allow electronic and paper returns to be accepted for processing in instances where a taxpayer does not indicate their coverage status.

\*\*Under the Act, the individual mandate and shared responsibility payment requirement have been eliminated after 2018.

### Other

Gift tax limits	2017	2018
Annual exclusion from total amount of taxable gifts*:	\$14,000	\$15,000
Annual exclusion for gifts to non-US citizen spouses*:	\$149,000	\$152,000

\*This amount is per donor and per donee and refers to gifts that are not future interests in property.

**Federal income tax rates**

*Married filing jointly and surviving spouses*  
2017

Over	Not over	Tax	% on excess
0	18,650	0.00	10.0%
18,650	75,900	1,865.00	15.0%
75,900	153,100	10,452.50	25.0%
153,100	233,350	29,752.50	28.0%
233,350	416,700	52,222.50	33.0%
416,700	470,700	112,728.00	35.0%
470,700		131,628.00	39.6%

2018

Over	Not over	Tax	% on excess
0	19,050	0	10%
19,050	77,400	1,905	12%
77,400	165,000	8,907	22%
165,000	315,000	28,179	24%
315,000	400,000	64,179	32%
400,000	600,000	91,379	35%
600,000		161,379	37%

*Single*  
2017

Over	Not over	Tax	% on excess
0	9,325	0.00	10.0%
9,325	37,950	932.50	15.0%
37,950	91,900	5,226.25	25.0%
91,900	191,650	18,713.75	28.0%
191,650	416,700	46,643.75	33.0%
416,700	418,400	120,910.25	35.0%
418,400		121,505.25	39.6%

2018

Over	Not over	Tax	% on excess
0	9,525	0.00	10%
9,525	38,700	952.50	12%
38,700	82,500	4,453.50	22%
82,500	157,500	14,089.50	24%
157,500	200,000	32,089.50	32%
200,000	500,000	45,689.50	35%
500,000		150,689.50	37%

*Married filing separately*  
2017

Over	Not over	Tax	% on excess
0	9,325	0.00	10.0%
9,325	37,950	932.50	15.0%
37,950	76,550	5,226.25	25.0%
76,550	116,675	14,876.25	28.0%
116,675	208,350	26,111.25	33.0%
208,350	235,350	56,364.00	35.0%
235,350		65,814.00	39.6%

2018

Over	Not over	Tax	% on excess
0	9,525	0.00	10%
9,525	38,700	952.50	12%
38,700	82,500	4,453.50	22%
82,500	157,500	14,089.50	24%
157,500	200,000	32,089.50	32%
200,000	300,000	45,689.50	35%
300,000		80,689.50	37%

*Head of household*  
2017

Over	Not over	Tax	% on excess
0	13,350	0.00	10.0%
13,350	50,800	1,335.00	15.0%
50,800	131,200	6,952.50	25.0%
131,200	212,500	27,052.50	28.0%
212,500	416,700	49,816.50	33.0%
416,700	444,550	117,202.50	35.0%
444,550		126,950.00	39.6%

2018

Over	Not over	Tax	% on excess
0	13,600	0	10%
13,600	51,800	1,360	12%
51,800	82,500	5,944	22%
82,500	157,500	12,698	24%
157,500	200,000	30,698	32%
200,000	500,000	44,298	35%
500,000		149,298	37%

\*2017 rate tables are provided in Rev. Proc. 2016-55, and 2018 rate tables are provided in Rev. Proc. 2018-18 (released March 2, 2018.)

## **Let's talk**

For a deeper discussion of how this issue might affect your business, please contact your regular Global Mobility Services engagement team or one of the following team members:

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