



Tax Reform: Individual Income Tax Highlights

Tax Cuts and Jobs Act (TCJA)

Three primary types of changes

**Income tax
rate changes**

**Income tax
structural
changes**

**Income tax
deduction
changes**

Income tax rate changes

2017 federal tax rates

Income tax rates ¹	Married filing jointly	Single ²
10%	\$0 to \$18,650	\$0 to \$9,325
15%	\$18,651 to \$75,900	\$9,326 to \$37,950
25%	\$75,901 to \$153,100	\$37,951 to \$91,900
28%	\$153,101 to \$233,350	\$91,901 to \$191,650
33%	\$233,351 to \$416,700	\$191,651 to \$416,700
35%	\$416,701 to \$470,700	\$416,701 to \$418,400
39.6%	Over \$470,700	Over \$418,400

¹These rates are imposed on taxable income, meaning income remaining after applicable exclusions, deductions and exemptions are claimed. Note that each rate applies only to the income falling within that bracket.

²Single taxpayers are unmarried individuals other than surviving spouses and heads of households.

2018 federal tax rates

Income tax rates ^{1, 2}	Single ³
10%	\$0 to \$9,525
12%	\$9,526 to \$38,700
22%	\$38,701 to \$82,500
24%	\$82,501 to \$157,500
32%	\$157,501 to \$200,000
35%	\$200,001 to \$500,000
37%	Over \$500,000

Income tax rates ^{1, 2}	Married filing jointly
10%	\$0 to \$19,050
12%	\$19,051 to \$77,400
22%	\$77,401 to \$165,000
24%	\$165,001 to \$315,000
32%	\$315,001 to \$400,000
35%	\$400,001 to \$600,000
37%	Over \$600,000

¹ Change will sunset after 2025 and revert to its 2017 numbers, adjusted for inflation.

² These rates are imposed on *taxable income*, meaning income remaining after applicable exclusions, deductions and exemptions are claimed. Note that each rate applies only to income falling within that bracket.

³ Unmarried individuals who are not surviving spouses or heads of household.

Comparison of individual federal tax rates

2017		2018	
Tax rate	Married filing jointly	Tax rate	Married filing jointly
10%	\$0 - \$18,650	10%	Up to \$19,050
15%	\$18,651 - \$75,900	12%	\$19,051 - \$77,400
25%	\$75,901 - \$153,100	22%	\$77,401 - \$165,000
28%	\$153,101 - \$233,350	24%	\$165,001 - \$315,000
33%	\$233,351 - \$416,700	32%	\$315,001 - \$400,000
35%	\$416,701 - \$470,700	35%	\$400,001 - \$600,000
39.6%	Over \$470,700	37%	Over \$600,000

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Income tax structural changes

Income tax structural changes

Change	Impact
<ul style="list-style-type: none">• Increased standard deduction	Fewer taxpayers will itemize
<ul style="list-style-type: none">• No personal exemptions	More reliance on child tax credit
<ul style="list-style-type: none">• Increased amount and availability of child tax credit	Availability to broader income ranges, and more of the credit is refundable
<ul style="list-style-type: none">• No phaseout of itemized deductions	Some deductions will be more available to higher income taxpayers than under prior law

Income tax structural changes

Changes	Impact
Alternative minimum tax: higher exemption and longer phaseout	Fewer taxpayers will be subject to the AMT
Individual mandate repealed	No penalty for failing to maintain a minimum level of health insurance coverage
Alimony no longer deductible to payor/included for payee	Courts may be more aggressive about ordering life insurance as a guarantee for alimony payments

Income tax deduction changes

Income tax deduction changes

- Deductions limited
 - Mortgage interest:
 - Deduction for acquisition indebtedness limited to \$750K
 - No deduction for home equity interest
 - Grandfathering for mortgages before December 15, 2017
 - State and local income tax
 - New maximum of \$10,000
 - Applies to state and local property and income taxes
- Deductions eliminated:
 - Moving expense
 - Miscellaneous itemized deductions, including for **investment advisory fees**
- Deductions expanded:
 - 529 plans: up to \$10,000 tax free distributions for education
 - Ability to roll 529 contributions to ABLE accounts

Income tax deduction changes

- Charitable contribution deduction
 - Itemized deduction for cash gifts to public charities expanded from 50% of adjusted gross income to 60%
 - Carryforward of unused deductions for up to 5 years remains
 - Charitable IRA “rollover” remains: opportunity for taxpayers over 70½ to contribute RMD amounts directly; save taxes without itemizing
- Medical expense deduction
 - Unreimbursed expenses exceeding 7.5% of AGI deductible in 2017 and 2018
 - 7.5% “floor” increases to 10% beginning in 2019
 - Medical expenses include certain long term care premiums
 - Primarily affects those with low income and/or high medical expenses, including nursing home expenses

Changes to Roth IRA strategies

- No Roth IRA recharacterization for 2018 and later conversions
- Recharacterization still available for 2017 conversions
- Conversions in 2018 and later will carry more risk; incremental conversions may be more favorable

Planning opportunities
created by tax changes

Planning opportunities

- Income tax provisions expire (“sunset”) after 2025
- Seven years to put extra tax savings aside
- Use tax savings to fund vehicles now that can receive favorable income tax treatment when rates have gone back up
- Principal offers product features designed for retirement income savings

Questions?

Principal National Life Insurance Company and Principal Life Insurance Company, Des Moines, Iowa 50392-0001

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