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TAX CHANGE EXAMPLE

Andy Agent is married to Emma Employee and they have two dependent children. For 2018, Andy earns $45,000 of net commission income while Emma earns a salary of $45,000. They have itemized deductions of $18,000, which are comprised of mortgage interest, state and local taxes, and charitable contributions.

Prior Law: Under the prior law, Andy and Emma would pay ordinary income tax rates on their total taxable income. Assuming they have no other income, their federal income tax for 2018 would be computed as follows:

Net commission income	$45,000
Salary income	$45,000
Personal exemptions (4 x $4,150)	($16,600)
Itemized deductions	($18,000)
Taxable income	$55,400
Tax	$ 7,358
Tax credit for children	$ 2,000
Net tax after credits	$ 5,358

Note: Andy and Emma are in the marginal tax rate bracket of 15% under the prior law.

New Law: The new tax law would provide a 20% deduction for Andy's net commission income so long as his and Emma's total taxable income do not exceed $315,000, even though the business income is derived from personal services (because of the personal service income exception). This deduction would reduce Andy and Emma's taxable income by $9,000 ($45,000 x 20%). Their tax under the new law would be computed as follows:

Net commission income	$45,000
Salary income	$45,000
Business income deduction (20%)	($ 9,000)
Standard deduction	($24,000)
Taxable income	$57,000
Tax	$ 6,459
Tax credit for children	$ 4,000
Net tax after credits	$ 2,459

Tax Difference Under New Law: The business income deduction would save Andy and Emma $1,080 ($9,000 x 12%, since they are in the 12% marginal tax bracket).

Their total tax reduction compared with the prior law is $2,899 ($5,358 - $2,459).

Note: This example pertains to federal taxes only.

Disclaimer: This is not intended to provide legal or tax advice. Application of provisions to particulartax situations need to be discussed with an accountant, CPA, or tax attorney.

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