

Tax Cuts and Jobs Act: Potential Impact on Medical Students and Residents

Repeal of Student Loan Interest Payment Deduction

2017		PROPOSED UNDER TRUMP'S TAX PLAN	
10%	\$0 – \$9,325	12%	\$0 – \$45,000
15%	\$9,326 – \$37,950		
25%	\$37,951 – \$91,900	25%	\$45,001 – \$200,000
28%	\$91,901 – \$191,650		
33%	\$191,651 – \$416,700	35%	\$200,001 – \$500,000
35%	\$416,701 – \$418,400	39.6%	\$500,001 or more
39.6%	\$418,401 or more		
Standard deduction:	\$6,350	Standard deduction:	\$12,000
Personal exemption:	\$4,050	Personal exemption:	Eliminated

(Dollar figures above refer to income and percentages refer to tax rates)

	Current Law*	TCJA*
Average Resident Gross Salary†	\$57,200	\$57,200
Max. SL interest deduction††	\$2,500	repealed
MAGI**	\$54,700	\$57,200
Standard Deduction	\$6,350	\$12,000
Personal Exemption	\$4,050	repealed
Taxable Income	\$44,300	\$45,200
Marginal Tax Rate°	25%	25%
Effective Tax Rate°	11.90%	9.52%
Total Federal Income Tax Burden	\$6,813.75	\$5,450

Difference

\$1,363.75

*This analysis assumes a single resident who takes the standard deduction under current law

**This MAGI assumes no other above-the-line deductions

† <https://www.medscape.com/slideshow/residents-salary-and-debt-report-2017-6008931>

†† <https://www.irs.gov/publications/p970#idm140532120617808>

°**Marginal rate** = percentage of tax taken from next dollar earned; however, under TCJA in this example, only last \$200 of taxable income (\$45,200) is taxed at the 25% marginal rate, with the first \$45,000 taxed at 12% (see chart). **Effective rate** = tax burden as percentage of gross income

Educational tax credits

- **American Opportunity Tax Credit (AOTC), Hope Scholarship Credit (HSC), and Lifetime Learning Credit (LLC) consolidated:** HSC and LLC repealed; AOTC extended at ½ rate for 1 additional year; eligibility and provisions for first 4 years of AOTC unchanged from current law
- **Loss of HSC partially offset by extension of the AOTC:** ½ rate AOTC available for only 1 year instead of 2 like HSC, while providing a maximum annual dollar amount of credit equal to the annual amount for HSC (\$1500), thus halving the total credit an eligible individual may receive. However, its means-testing threshold is significantly higher (\$80-90K vs. \$40-50K), and up to \$500 of this credit is refundable, vs. none of the HSC
- **No apparent compensatory provision for repeal of LLC.** However, the LLC is **nonrefundable** - only students with incomes can benefit
- Also, a work-eligible SSN now must be provided to claim the AOTC refund