



# Tax Cuts & Jobs Act – Individuals

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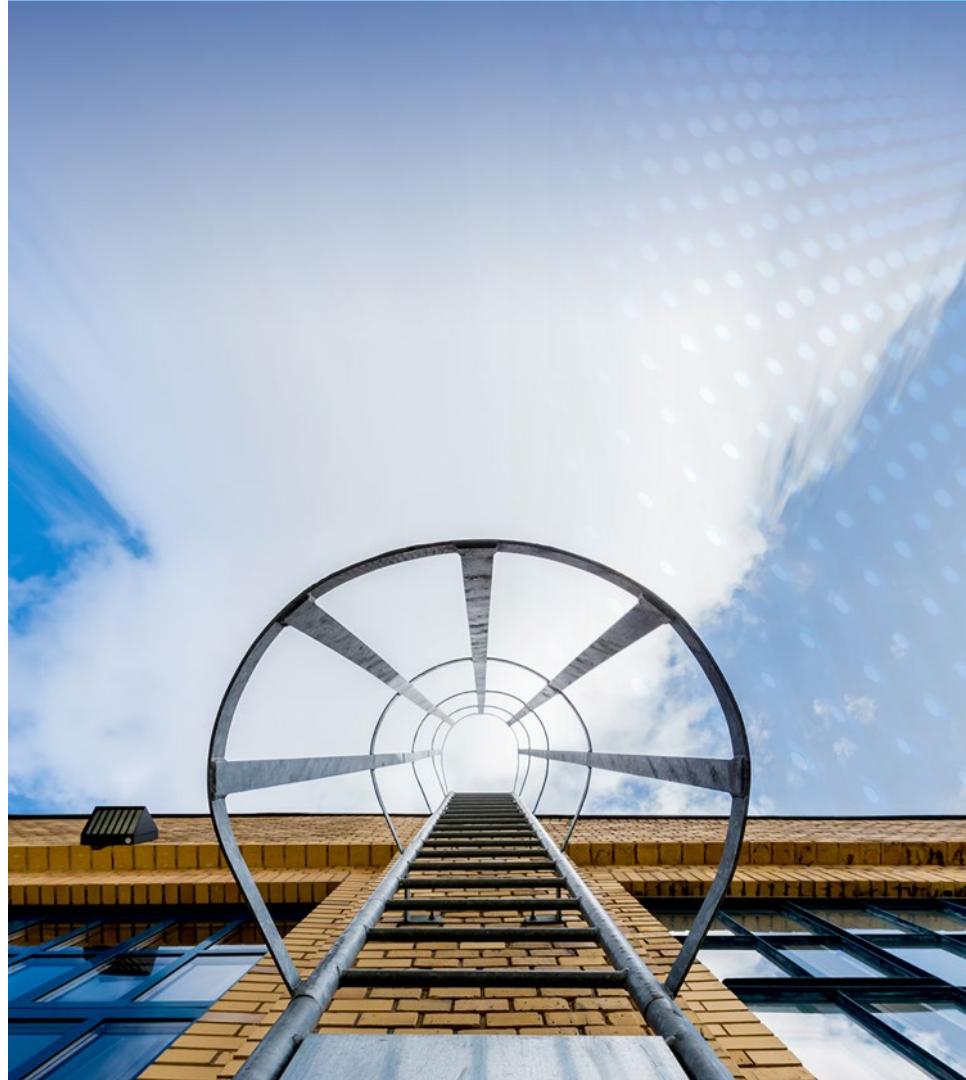
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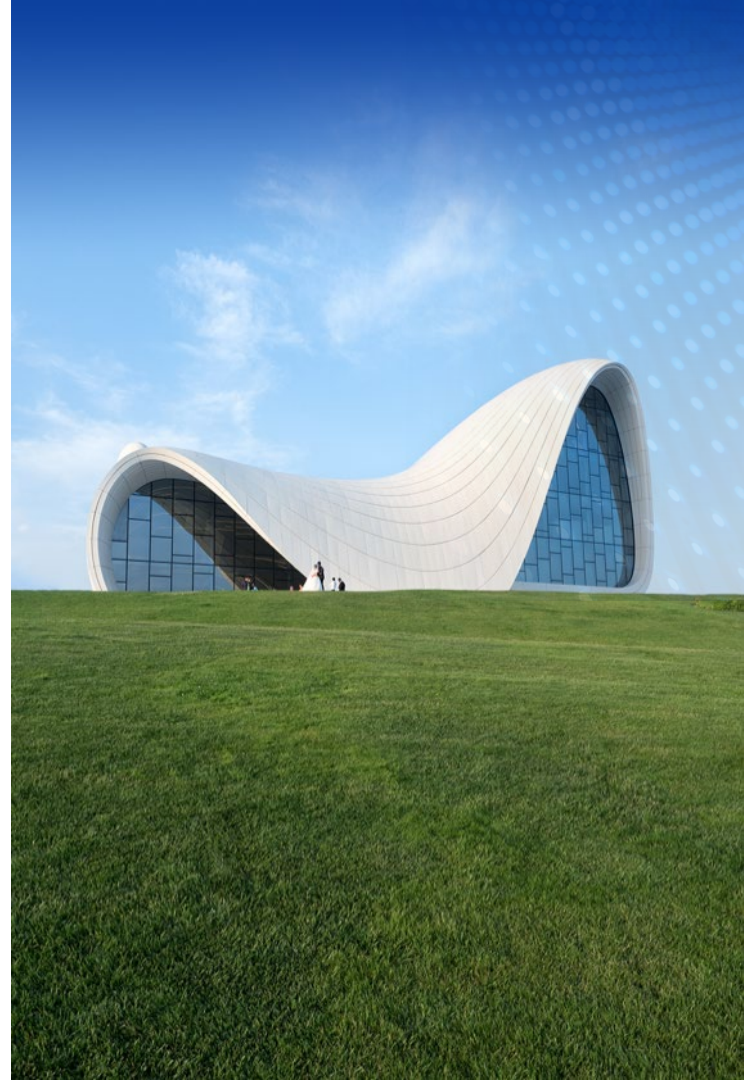
# Many changes!

- Most in effect now
- Most changes are temporary
  - Sunset after 2025
- Receiving guidance on law slowly – but still lack clarity
- Future legislation?
- State conformity to changes?



# The basics

- Still seven tax brackets
  - 10%, 12%, 22%, 24%, 32%, 35%, 37%
- No more personal or dependent exemption deduction
- Higher child tax credit (\$2,000)
  - New \$500 non-child dependent credit
- Increase in standard deduction – basically doubled
- Individual AMT not repealed
  - *But* exemption amounts have increased



## Dividend and capital gains rates unchanged

- The top tax bracket for qualified dividends and capital gains is 20% (23.8% if the net investment income tax applies).

Here's the breakdown:

**0% for MFJ taxpayers  
with < \$77.2k taxable  
income**

**15% for MFJ taxpayers  
with between \$77.2k  
and \$479k taxable  
income**

**20% for MFJ taxpayers  
with taxable income  
greater than \$479k**

# Itemized deductions changes

- Repeal of the overall limitation on itemized deductions
- Medical deduction threshold is 7.5% for 2017 & 2018
  - Reverts to 10% starting in 2019
- Mortgage interest limited to \$750k of debt
  - Debt prior to 12/15/17 is grandfathered
- Home equity only deductible if buying, building, or improving home securing loan
- State and local tax deduction is limited to \$10k (\$5k if MFS)
- Misc. deductions subject to 2% threshold no longer deductible

## Misc. itemized deductions subject to 2% AGI

- Unreimbursed employee expenses
- Tax prep fees
- Hobby expenses
- Investment fees/expenses
- Legal fees related to producing income
- Safe deposit fee

...are no longer deductible



# Charitable contribution changes

- AGI limitation increased to 60% for cash contributions (from 50%)
- No 80% deduction for right to purchase athletic tickets
- Exception to contemporaneous written acknowledgement requirement is repealed (must be obtained now for any contribution of \$250 or more)

# State and local tax issues

- Total deduction limit of \$10k (\$5k if MFS)
  - Combination of income/sales and state/local property taxes
- Exceptions
  - Tax imposed at entity level
  - Property taxes for residential rental property/business property
- Prepayment of 2018 state income taxes in 2017
- Prepayment of 2018 real estate taxes in 2017





# Affordable Care Act impact

- Penalty to maintain insurance coverage (individual mandate) is repealed for 2019 and forward
- **HOWEVER**, still in effect for 2017 and 2018
- 2017 penalty:
  - Higher of 2.5% of yearly household income, **or**
  - \$695 per person (\$347.50 per child under 18)



## Expired provisions

- Exclusion of discharge of indebtedness on principal residence
- Deduction of mortgage insurance premiums
- Above-the-line deduction for qualified tuition and fees
- Credits for qualified energy property



## Sec 199A Deduction (20% Passthrough)

- New Qualified Business deduction of maximum of 20% of net qualified business income allowed for pass-through entities (Partnerships, S-Corps and Trusts) and Individuals (Sole Proprietors)
- Broken into two groups:
  - Qualified Business Income (QBI)
    - Can include rentals (material participation required)
  - QBI generated by a Specified Service Trade or Business
    - Includes such performance of services as the fields of Health, Law, Accounting, Actuarial Science, Performing Arts, Consulting, Athletics, & Finances.

## Sec 199A Deduction (20% Passthrough)

- Phase-out Ranges – Taxable Income
  - Single / MFS / HOH - \$157k - \$207k
  - MFJ - \$315k - \$415k
- For General QBI – Deduction may be allowed over this range as long as taxpayer has:
  - Enough W-2 wages paid
  - Enough Qualified Property
- For Specified Service Trade Business – No Deduction allowed over the phase-out range

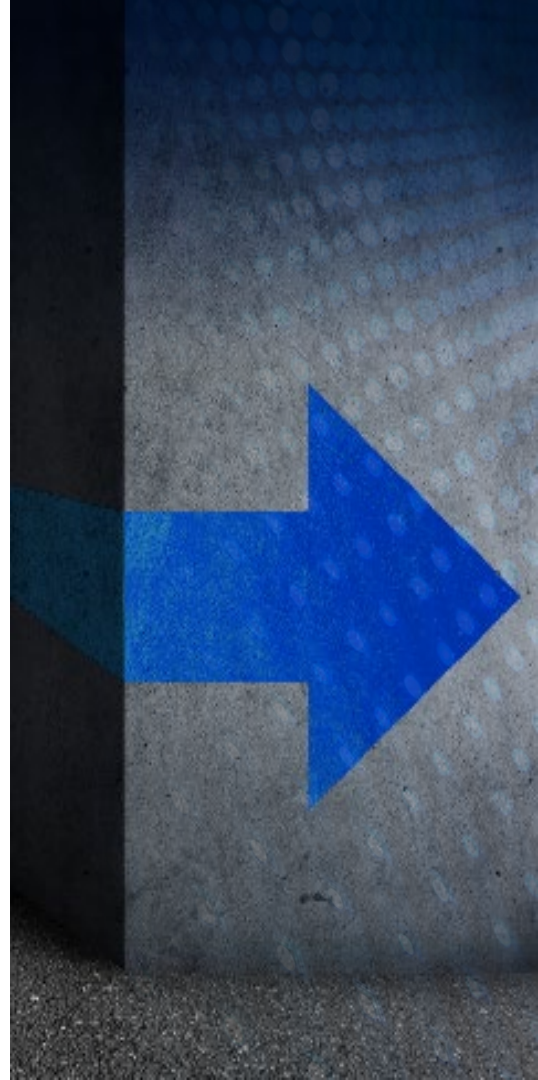
## Affects on the net investment income tax (NIIT)

- No change to NIIT itself, but.....
- Investment fees and state income tax (amount attributable to investment income) reduce investment income to lower amount subject to NIIT
- Since investment fees are no longer deductible and state income tax is limited to \$10k, this will likely cause an increase in the amount subject to NIIT



# Alternative minimum tax (AMT) changes

- Alternative tax system that parallels the regular federal tax (with different rates and rules for deductions)
- Increase in exemption amount
- Due to limit on state/local tax deduction and repeal of miscellaneous deductions, impact should be less



# Estate and gift taxes changes

- 2018 estate tax exemption: \$11.2 million
- 2018 gift tax annual exclusion: \$15,000
- Estate planning is **more than minimizing estate taxes**.
  - Updating documents
  - Repurposing insurance
  - Privacy
  - Asset protection
- But....It may be beneficial to re-think estate planning to receive stepped up basis.

# Education tax benefit changes

- Sec 529 plan distributions for private school tuition
- Sec 529 plan assets can transfer to ABLE accounts for family members
- Student loan forgiveness will not be taxable income to student upon death/total disability



## Other individual changes to note

- Casualty losses: only allowed for federally-declared disasters
- Alimony: deduction/inclusion repealed for divorces executed after 12/31/18
- Moving expenses deduction repealed
- Kiddie tax now at trusts/estate tax rates – This effects children with investment income
- Gambling expenses for professional gamblers limited to gambling winnings

## Depreciation changes

- Additional first year/bonus depreciation- 100% for property acquired after 9/27/17
- Phase down schedule for years after 2022
- Now allowed for new and used property
- Qualified improvement property no longer qualifies
- Luxury auto limits – (note that additional \$8k depreciation has been extended for 2017)
- Increases to Sec. 179 (\$1M and threshold \$2.5M)
- SUV limitation remains at \$25,000
- Limits are indexed for inflation
- Expansion for certain real property (roofs, HVAC)



# Corporate rate changes

- Flat rate of 21%
- Effective for years beginning after 12/31/17
- Fiscal year corporations should apply Sec. 15
- Personal service corporations taxed at same rate (no more surtax)
- Corporate AMT has been repealed
- Dividends received deduction reduced

## Changes to fringe benefits/entertainment expense

- Repeal of business entertainment expenses
- Repeal of deduction for qualified transportation fringe benefits
- Repeal of exclusion for bicycle commuting reimbursement
- Repeal of exclusion for employee reimbursed moving expenses
- Other changes to employee fringe benefits

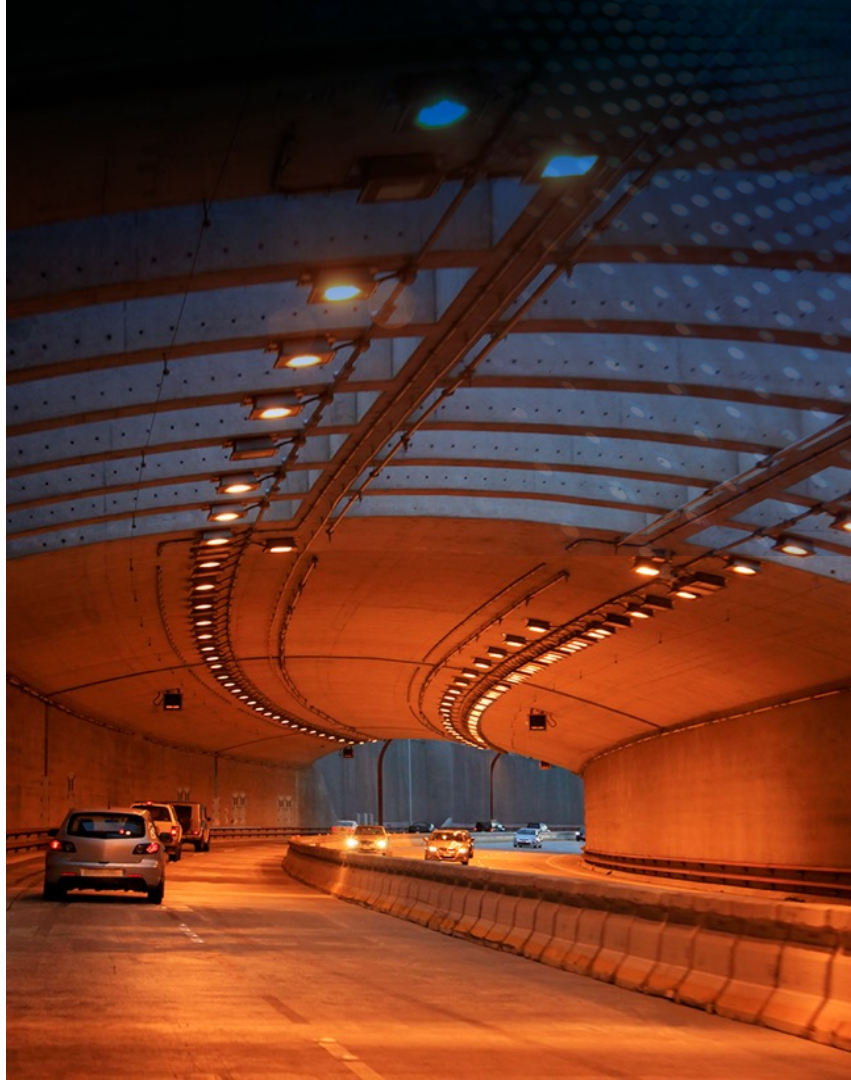
## Net operating loss provisions

- No longer allowed to carryback NOLs
  - One exception – Farmers – allowed 2 year carryback
- Carried forward indefinitely
- 80% of taxable income may be reduced by NOL

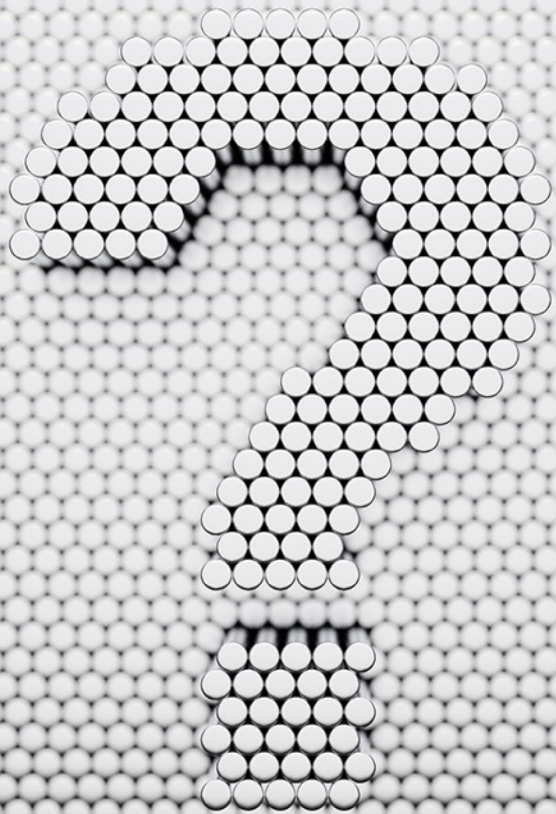


## Other changes to note

- New limits on executive compensation deduction
- Changes for Sec. 1031 exchanges – only real estate qualifies
- Changes to carried interest rule
- Expenses for employer operating eating facilities is now 50% (rather than fully deductible)
- Lobbying costs no longer deductible
- New credit for paid family and medical leave











Thank you